A NATIONAL SYSTEM OF ECONOMICS

J. TAYLOR PEDDIE

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A NATIONAL SYSTEM OF ECONOMICS

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A NATIONAL SYSTEM OF ECONOMICS

WITH A CONSIDERATION OF THE PARIS ECONOMIC RESOLUTIONS AND OF THEIR INFLUENCE ON NATIONALITY

BY

J. TAYLOR PEDDIE, F.S.S.

AUTHOR OF
"FIRST PRINCIPLES OF PRODUCTION,"
"ON THE RELATION OF IMPORTS TO EXPORTS"

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DEDICATED

TO MY FRIEND

SIR HERBERT H. BARTLETT, Bart.

L. C.

PREFACE

In the development of this work, being my third volume on National Economics, I have returned to the main theme indicated in the first Essay of my book on *First Principles of Production.* I have also found it desirable to reintroduce some of the definitions given in the first and second volumes, notably those on raw materials and free trade, as I believe that until these definitions are more fully appreciated and impressed on the public mind the study of national economic questions will prove to be what Lord Sydenham chose to call "a dismal science."

As a result of further thought and study I have been able to give a clearer and more precise definition of raw materials, which I hope may prove helpful in the development of our national business policy.

Although the Paris Economic Resolutions have been accepted and approved in principle by all the Allied Powers, yet very little, if any, progress has been made towards making them really effective. The public, business men, politicians, and even the ministers are, like Micawber, waiting for something to turn up; but this attitude may be more apparent than real. I am convinced, however, that

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the delays that have occurred can be attributed to the mentality of certain of the Government Departments whose well-known prejudices in favour of *Laissez faire*, *Laissez passer* are notorious; and for this reason I cannot help but agree with Sir Edward Carson's suggestion that some form of organisation is necessary whereby the Government may apply for and secure a mandate from the country as to the measures to be employed in developing and making effective the Paris Economic Resolutions.

The establishment of Trade and National Committees by the Board of Trade is all to the good; but I have always maintained, and I do so still, that the work and conclusion of these committees must in the end prove to be abortive, or considerably stultified, unless there is secured, as the basis of their deliberations and our national business policy, a national system of economics.

The decisions of these Trade Committees will, in the end, no doubt, prove to be extremely useful to the Board of Trade; but I trust it will not be considered unjust of me to assume that their final conclusions might, had they a definite national economic system to guide them in the course of their discussions, all have been co-ordinated and developed with more certainty in favour of our national and imperial interests; and consistent with every consideration that ought to be shown to our loyal Allies.

But so long as we have Ministers in control of the essential Public Departments whose pre-war views were essentially *Laissez faire*, *Laissez passer*,

and who have as yet given no indication of having definitely abandoned that policy, a want of confidence and progress must continue to prevail in so far as it concerns our future national business policy.

What is needed most at the moment is a courageous and illuminative policy, the development of which should be conducted with energy and vigour by the Ministers concerned; and the country must see to it that they seek and are provided with the necessary mandate. It is all very well to assert that in consequence of the war we should not invite Ministers to do this, but we have to bear in mind that we occupy a peculiar position inasmuch as we alone of all the nations have two definite economic schools of thought; and that the Government Departments most concerned with the development of our future trade policy are controlled by Ministers whose minds are saturated with *Laissez faire*, *Laissez passer*. In these circumstances I consider that the public should be invited at the earliest possible moment to decide whether this silent but passive opposition should be allowed to continue.

Let us remember what Bernhardi stated—I make no apology for submitting a quotation from him, as it would be to our advantage if certain of our Ministers only imbibed some of the spirit which he indicates in the prosecution of the war and more particularly in the development of our future trade policy—namely: "that great Ministers were not those who balanced the national

accounts by sparing the national forces while renouncing the politically indispensable outlay, but he who stimulates all the live forces of the nation to cheerful activity, and so employs them for national ends that the State revenue suffices to meet the admitted political demands. He can only attain this purpose if he works in harmony with the Ministers for Commerce, Agriculture, Industries, and Colonies, in order to break down the restrictions which cramp the enterprise and energy of the individual, to make all dead values remunerative, and to create favourable conditions for profitable business. A great impulse must thrill the whole productive and financial circles of the State, if the duties of the present and the future are to be fulfilled."

I have considered it desirable in developing the main theme of this work to use quotations from the works of distinguished economists; I make no apology for so doing, inasmuch as, apart from the justice and equity rendered in the acknowledgments, they lend more authority to the principles involved and enunciated.

I am glad to be able to acknowledge that with the recommendation of Lord Faringdon's Committee in favour of the establishment of a Trade Bank, with a view to extending financial facilities for the development of national industries, all of the detailed reforms advocated in my first two volumes have been made effective, or have received official recognition. The main issue, however, is not yet determined, namely, *the establishment of*

a national economic system as the basis of our national business policy; and, as a corollary to this, the establishment of a Ministry of Industry and Commerce to develop the new system in favour of our national and imperial industries.

If I were asked if the country had made any progress in matters economic since war was declared in 1914, I would say that it has made great progress. The spirit which dominates organised labour and our business men to-day is entirely different to that which prevailed in pre-war times, and it affords great encouragement for the future. In fact, in so far as it concerns this particular aspect of the question, if the further reforms herein advocated were made effective we could truthfully assert that Germany had lost the war, since we could claim that our country had been regenerated; and that if the war were to afterwards terminate we should have nothing to fear from Germany in future.

It leads me to hope, therefore, that this work may receive the same due consideration as hitherto; and in concluding these few remarks I would just like to remind my readers that Napoleon, in the many moments he had for meditation during his exile at St. Helena, expressed the view that what Europe suffered from most was the want of (*a*) a common law; (*b*) a common measure; and (*c*) a common monetary system. Unity and co-operation is here contemplated and suggested, and as a basis of an Imperial trade policy, nothing, in my opinion, could be more useful; but before this

great reform can be achieved we must first of all begin to organise on National lines, subsequently on Imperial lines, and ultimately on International lines; after which we might begin to contemplate another principle and add it to those suggested by Napoleon: namely, that what the British Empire and Europe suffered from most was the want of (*d*) a common economic system. If this could be achieved it would, I believe, more than anything else secure and ensure a lasting peace to Continental Europe and the world in general.

J. Taylor Peddie.

London, October 3, 1916.

POSTSCRIPT

Since the foregoing was written several events of considerable importance have occurred to which reference must be made, namely—

(1) There has been a change of Government, and the constitution of the new Government, and the announcement of its policy, encourage us to hope that the new Ministers may conduct their respective offices with more energy and vitality in the national interests than we have been accustomed to experience hitherto. For obvious reasons, however, the Author has, notwithstanding, decided to publish the manuscript as it stands, without alteration.

(2) In the Preface to his last book the Author stated that "the greatest exponent of National

Economics in the modern sense was Adam Smith himself." After completing the present work a friend referred him to an American translation of Frederick List's *National System of Political Economy*. So remarkable is this work that the statement above referred to must be modified; in the strict sense List is by far the greatest exponent of the system; but Smith, nevertheless, will always remain the father of it.

(3) In glancing through the books of a second-hand book-shop the Author came across two copies (Tenth Edition) of Adam Smith's *Theory of Moral Sentiments*, in which there is a preface written by Smith after he had completed the *Wealth of Nations;* it cannot be generally known, but it confirms the general conclusions the Author had formed for himself, that Smith's *Wealth of Nations* was intended to constitute the basis of a national system.

In the circumstances the Author has deemed it to be necessary to add a further chapter to the present work, "On the Relative Systems of Political Economy and National Economics," in which opportunity is taken of discussing List's national system in relation to Smith's, and their influence on the present situation. Smith's preface to his *Theory of Moral Sentiments* is also published therein for general information.

Needless to say, the Author has not been in any way indebted to List for any views he has expressed on his own system of National Economics, not having had an opportunity of reading List's work

until he secured the copy of the American translation above mentioned. But the extraordinary resemblance of ideas naturally affords him considerable gratification, since, for the first time, he feels that his own system rests upon a sure and solid foundation. The resemblance of views may be attributed to the fact that List had a thorough first-hand knowledge of commercial practice, having successfully engaged in railway enterprise in America before finally settling down in Germany.

So practical an economist was List that he actually formed an association of merchants and manufacturers shortly after his appointment to the Chair of Political Economy, in the University of Tübingen in 1817, to suppress the Customs on the interior boundary of the German States; and also to attain for Germany the same industrial and commercial development which other nations had obtained by their commercial policy.

If the Author's system can attain for Great Britain what List's has attained for Germany he will be more than repaid for the many months of labour it has involved.

December 25, 1916.

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Recommendations of the Economic Conference of the Allies held at Paris on June 14, 15, 16 and 17, 1916.

(*Translation*)

I

The representatives of the Allied Governments have met at Paris under the presidency of M. Clémentel, Minister of Commerce, on June 14, 15, 16 and 17, 1916, for the purpose of fulfilling the mandate given to them by the Paris Conference of March 28, 1916, of giving practical expressions to their solidarity of views and interests, and of proposing to their respective Governments the appropriate measures for realising this solidarity.

II

They declare that after forcing upon them the military contest in spite of all their efforts to avoid the conflict, the Empires of Central Europe are to-day preparing, in concert with their Allies, for a contest on the economic plane, which will not only survive the re-establishment of peace, but will at that moment attain its full scope and intensity.

III

They cannot therefore conceal from themselves that the agreements which are being prepared for

this purpose between their enemies have the obvious object of establishing the dominion of the latter over the production and the markets of the whole world and of imposing on other countries an intolerable yoke.

In face of so grave a peril the Representatives of the Allied Governments consider that it has become their duty, on grounds of necessary and legitimate defence, to adopt and realise from now onward all the measures requisite on the one hand to secure for themselves and for the whole of the markets of neutral countries full economic independence and respect for sound commercial practice, and on the other hand to facilitate the organisation on a permanent basis of their economic alliance.

For this purpose the Representatives of the Allied Governments have decided to submit for the approval of those Governments the following resolutions—

A

Measures for the War Period

I

The laws and regulations prohibiting trading with the enemy shall be brought into accord.

For this purpose—

A.—The Allies will prohibit their own subjects and citizens and all persons residing in their territories from carrying on any trade with—

1. The inhabitants of enemy countries whatever their nationality.
2. Enemy subjects wherever resident.
3. Persons, firms and companies whose business is controlled wholly or partially by enemy subjects or is subject to enemy influence and whose names are included in a special list.

B.—They will prohibit the importation into their territories of all goods originating in or coming from enemy countries.

C.—They will devise means of establishing a system enabling contracts entered into with enemy subjects and injurious to national interests to be cancelled unconditionally.

II

Business undertakings owned or operated by enemy subjects in the territories of the Allies will all be sequestrated or placed under control; measures will be taken for the purpose of winding up some of these undertakings and of realising their assets, the proceeds of such realisation remaining sequestrated or under control.

III

In addition to the export prohibitions which are necessitated by the internal situation of each of the Allied countries, the Allies will complete the measures already taken for the restriction of enemy

supplies, both in the mother countries and in the Dominions, Colonies and Protectorates—

1. By unifying the lists of contraband and of export prohibition, and particularly by prohibiting the export of all commodities declared absolute or conditional contraband;
2. By making the grant of licenses for export to neutral countries from which export to enemy territories might take place conditional upon the existence in such countries of control organisations approved by the Allies; or, in the absence of such organisations, upon special guarantees such as the limitation of the quantities exported, supervision by Allied consular officers, etc.

B

Transitory Measures for the Period of Commercial, Industrial, Agricultural and Maritime Reconstruction of the Allied Countries.

I

The Allies declare their common determination to ensure the re-establishment of the countries suffering from acts of destruction, spoliation and unjust requisition, and decide to join in devising means to secure the restoration to those countries, as a prior claim, of their raw materials, industrial and agricultural plant, stock and mercantile fleet, or to assist them to re-equip themselves in these respects.

II

Whereas the war has put an end to all the treaties of commerce between the Allies and the Enemy Powers, and whereas it is of essential importance that, during the period of economic reconstruction which will follow the cessation of hostilities, the liberty of none of the Allies should be hampered by any claim put forward by the Enemy Powers to most-favoured-nation treatment, the Allies agree that the benefit of this treatment shall not be granted to those Powers during a number of years to be fixed by mutual agreement among themselves.

During this number of years the Allies undertake to assure to each other so far as possible compensatory outlets for trade in case consequences detrimental to their commerce result from the application of the undertaking referred to in the preceding paragraph.

III

The Allies declare themselves agreed to conserve for the Allied countries, before all others, their natural resources during the whole period of commercial, industrial, agricultural and maritime reconstruction, and for this purpose they undertake to establish special arrangements to facilitate the interchange of these resources.

IV

In order to defend their commerce, their industry, their agriculture and their navigation

against economic aggression resulting from dumping or any other mode of unfair competition, the Allies decide to fix by agreement a period of time during which the commerce of the enemy powers shall be submitted to special treatment and the goods originating in their countries shall be subjected either to prohibitions or to a special régime of an effective character.

The Allies will determine by agreement through diplomatic channels the special conditions to be imposed during the above-mentioned period on the ships of the enemy powers.

V

The Allies will devise the measures to be taken jointly or severally for preventing enemy subjects from exercising, in their territories, certain industries or professions which concern national defence or economic independence.

C

Permanent Measures of Mutual Assistance and Collaboration among the Allies

I

The Allies decide to take the necessary steps without delay to render themselves independent of the enemy countries in so far as regards the raw materials and manufactured articles essential to the normal development of their economic activities.

These steps should be directed to assuring the

independence of the Allies not only so far as concerns their sources of supply, but also as regards their financial, commercial and maritime organisation.

The Allies will adopt the methods which seem to them most suitable for the carrying out of this resolution, according to the nature of the commodities and having regard to the principles which govern their economic policy.

They may, for example, have recourse either to enterprises subsidised, directed or controlled by the Governments themselves, or to the grant of financial assistance for the encouragement of scientific and technical research and the development of national industries and resources; to customs duties or prohibitions of a temporary or permanent character; or to a combination of these different methods.

Whatever may be the methods adopted, the object aimed at by the Allies is to increase production within their territories as a whole to a sufficient extent to enable them to maintain and develop their economic position and independence in relation to enemy countries.

II

In order to permit the interchange of their products, the Allies undertake to adopt measures for facilitating their mutual trade relations both by the establishment of direct and rapid land and sea transport services at low rates, and by the extension and improvement of postal, telegraphic and other communications.

III

The Allies undertake to convene a meeting of technical delegates to draw up measures for the assimilation, so far as may be possible, of their laws governing patents, indications of origin and trade marks.

In regard to patents, trade marks and literary and artistic copyright which have come into existence during the war in enemy countries, the Allies will adopt, so far as possible, an identical procedure, to be applied as soon as hostilities cease.

This procedure will be elaborated by the technical delegates of the Allies.

D

Whereas for the purpose of their common defence against the enemy the Allied Powers have agreed to adopt a common economic policy, on the lines laid down in the Resolutions which have been passed, and whereas it is recognised that the effectiveness of this policy depends absolutely upon these Resolutions being put into operation forthwith, the Representatives of the Allied Governments undertake to recommend their respective Governments to take without delay all the measures, whether temporary or permanent, requisite for giving full and complete effect to this policy forthwith, and to communicate to each other the decisions arrived at to attain that object.

BOARD OF TRADE,
June 21, 1916.

A NATIONAL SYSTEM
OF
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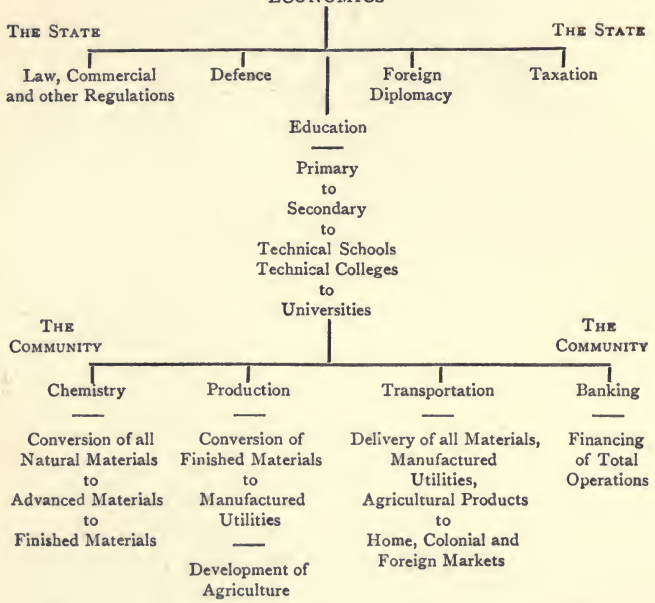

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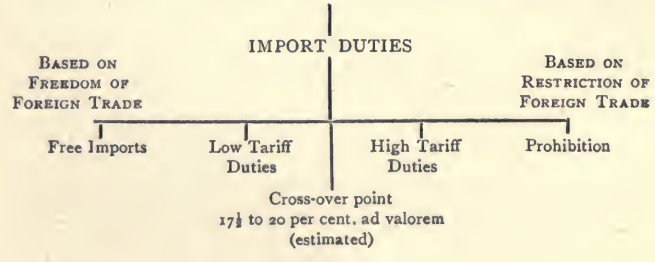

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A NATIONAL SYSTEM OF ECONOMICS

CHAPTER I

THE CONSIDERATIONS WHICH ARISE OUT OF THE PARIS ECONOMIC RESOLUTIONS

After studying the Paris Economic Resolutions and the speeches that have been made by various Cabinet Ministers in support of them, there seem to be several considerations which still require to be taken into account, and it is this circumstance which has been responsible for the following essays being written. The most notable and outstanding consideration is that there is not in existence an economic system under which the Paris Economic Resolutions can in reality be made effective by the Allied countries as a whole; at any rate, in the deliberations which have so far been given to them there does not appear any appreciation of this fact.

Leading authorities seem to be in agreement that the resolutions are at the moment nothing but pious resolutions, *i. e.* they are idealistic in character, and quite rightly so, but many of these same authorities, if not all, are for the moment unable to clearly perceive by what manner of means or under what economic system the resolutions can be made operative, workable, and effective. And the politicians and business men who are discussing these matters seem to be in a worse predicament; but this is not to be wondered at considering that the war and its enormous direct and indirect non-productive expenditure, combined with the brutality and mentality of the German Huns, have caused all sections of public opinion in Great Britain to scrap their pre-war political and economic views, which certainly did not anticipate or provide for the conditions which have now arisen in international politics. As we have had very little time, therefore, in which to shape our new ideas, and little, if any, experience dealing with the new economic situation which the war has brought forward, and will continue to bring forward, there is obviously a lot of thinking to be done.

With a view, therefore, of assisting in this very interesting work we have devoted some considerable time to an examination of the considerations which seem to arise out of the Paris Economic

Resolutions, and the effect they may have on our economic future; but it must be admitted at the outset that the problem is a very difficult and complex one to solve, inasmuch as the size of the indemnity, if any, which may be imposed on enemy countries has not yet been determined. The size of the indemnity to be imposed, if any, and its method of liquidation has a very direct bearing on the working and operation of the Paris Resolutions, and on the considerations which arise therefrom.

Subject to this aspect of the question being borne in mind we will now proceed to examine the considerations which seem to arise out of the resolutions and to suggest the steps we should take to (1) safeguard the principles of Liberty, Freedom and Justice for all time, and (2) advance the material welfare of the people.

As they occur to us the considerations which arise out of the Paris Economic Resolutions are as follows—

(1) As it will be necessary to impose an indemnity upon Germany the question arises as to what are the most effective means by which the Paris Economic Resolutions can be applied in order to slow up the process of the liquidation of the indemnity, and at the same time to make them workable and operative; bearing in mind that experience has shown that the imposition of an

indemnity does not necessarily penalise the people of the country upon which the indemnity is, or may be, imposed.

(2) Are neutrals to be allowed to trade with Allied nations and the Dominions upon the same terms as the Allies themselves during the process of the liquidation of the indemnity by Germany, and of the war costs incurred by the Allies in the defence of democratic principles; in view of the fact that neutrals have sought for and obtained enormous profits from the Allies during the progress of the war in supplying goods and materials in lieu of participating in the struggle?

(3) During what period of time shall the Paris Economic Resolutions, in so far as they are designed to enable the Allies to facilitate the liquidation of their war costs, remain effective? The time must arrive when they will cease to be practicable or desirable, particularly where the interests of neutrals are concerned.

(4) Is it the intention to allow the Kaiser, or any member of his family, possible heirs or successors, to ever again occupy the throne of Germany? If the answer is in the negative and democratic government is introduced into Germany after the war on approved lines, should we modify our views to accord thereto?

(5) What co-operation can we expect from organised labour in making the Paris Economic Resolutions workable and effective both in respect of production and politics? What must we do to ensure the necessary co-operation?

As the foregoing considerations may be assumed to be the essence of the Paris Economic Resolutions, and as they would have an important bearing upon the principle of nationality, if effectively applied, they form part, in consequence, of the main theme of our discussion in the following pages.

Unfortunately empiricism is synonymous with *Laissez faire* and *Laissez passer*, the basis of our present economic life, with the result that our people have been accustomed in the past to follow mere catch words and phrases and not any definite system of economic science. Our main purpose, therefore, in dealing with the subject is to demonstrate, to the best of our ability, that economic science is in a very backward condition in the world generally, and that it is difficult to understand why the professors at the Universities have neglected its development from the standpoint of nationality; it may, no doubt, be due to their fondness of treating the science more as an historical study rather than as a practical present-day business proposition. We shall have them discoursing upon the wisdom or unwisdom of our present course of action fifty years hence instead of getting a definite lead from them in the present on the various problems we now have to solve.

DEFINITION OF RAW MATERIALS

The descriptive term "raw materials" which occurs in the resolutions ought not to have been used—it is indefinite in form. According to the dictionary the word "raw" is defined as "something without a skin; an open sore." In view of this it can never be satisfactorily explained why such a descriptive term has, for instance, been given to iron ore, or how it originated. What has come to be known as raw material, is in reality natural material, and is the agent of production, *i. e.* substance or matter in its lowest form of utility, such as iron ore, cow hides, cotton, coal, corn, wheat, barley, coffee beans, cocoa beans, oil, etc., and the moment either of these substances is subject to a development process it ceases to be natural material and becomes advanced material. An example may be given as follows—

Iron ore is natural material and the pig iron produced therefrom is advanced material; the steel produced from pig iron should be termed finished material; and the various manufactures produced from the steel are not looked upon as natural material, advanced material or finished material, but as manufactured utilities. In other words, the more labour that is employed in the converting processes the more do we get away from the natural material stage.

To bring it nearer home we will take the case of

cow hides; these are natural material, but the moment they are converted into leather they become finished material, and the moment leather is converted into boots the latter are called manufactured utilities, made to satiate the wants of man.

Natural materials may themselves be divided into two categories: (1) those that are the bounteous dividend of Nature and (2) those that are the capital of Nature. In the former may be classed wheat, coffee, cotton, tea, fruit, etc., and in the latter, coal, copper, tin, iron ore, etc., but both nevertheless have to be won from Nature by man, and so are termed natural materials. But the measure of his success in the former is determined more by climatic conditions than by personal effort, whereas in the latter the whims of bounteous Nature do not affect him.

To those who give careful thought and study to such problems it will be obvious that the above definition will clear away many misconceptions and enable the proper authorities to see, in the event of it eventually being found to be desirable, what material should be taxed and what ought not to be taxed. Natural materials in any form ought not to be taxed, but advanced and finished materials might reasonably have a low tariff imposed on them (according to the labour expended), and according to a recent notice in *The Times*, the London Chamber of Commerce are recommending that this formula should be followed.

In the preparation of the tariff schedule which the Government may see fit to introduce for the development of British industry after the war, it should be the duty of the State to ensure that no duty is placed upon natural materials of any kind whatsoever, irrespective of whether they are of enemy origin or not; but this declaration does not apply to advanced materials or finished materials or other articles of utility, the prices for which include a fixed proportion for labour expended.

It should be the further duty of the State to ensure that no monopoly of any kind is created in the supply of any kind of natural material, and for purposes of production money and credit may be classified in this category, for such monopolies are obviously formed and maintained at the expense of the consumer. There are certain wealthy corporations which exist for the sole purpose of creating monopolies in natural materials, but these should be broken up by the State, for they are a menace to cheap production; the community at large pay them huge profits to which they are not entitled. There is no enterprise involved in controlling natural materials—financial power alone is the chief consideration—consequently such combinations are a danger to cheap production, and, *ipso facto*, to the welfare of the individuals constituting the State. On the other hand, large corporations which exist for the purpose of developing advanced materials, finished materials, or utilities,

should be left alone, and even encouraged, for it is impossible for them to create monopoly prices and unreasonable profits for the simple reason that labour and enterprise must always compete with labour and enterprise. These latter combinations depend for their larger profits upon decreasing costs of production,[1] which the larger volume of output will always ensure if they are properly managed; and for this reason alone they are desirable in the interests of the State because such methods increase our capacity and ability to export and import. Whatever profits, therefore, may be earned by the latter group can be considered the rewards of enterprise and management. If profits should, however, be continuously large, competition will set in and profits will be reduced in proportion to the extent of the competition.

This is an indisputable proposition which any one can test for himself by comparing the standard prices of manufactured utilities in, say, 1913 with the prices prevailing, say, for the same articles in 1903, in 1893, or 1883. There has been, and there is still, a natural tendency or inclination for production to be conducted upon a large-scale basis, as the history and record of Joint Stock Companies will prove. The issued share capital values of Joint Stock Companies always tend, with rare exceptions, to higher levels, clearly proving that the respective managements recognise that in

[1] See *First Principles of Production* (Peddie), pp. 13–67.

order to ensure and maintain successful operations (and the barometer in this case is the size of the annual dividends paid) production must be conducted upon the largest possible scale in order that costs of production per unit of goods may be on the lowest possible basis.

It is impossible, however, to conduct and maintain production upon a large-scale basis unless the national working conditions are such as will ensure that distribution is conducted upon the same comparative basis: for it will be obvious to any one who studies such matters that it would be futile to produce commodities upon a large-scale basis for home consumption and export unless there is a free market in which they can be distributed, or, in other words, unless there is a market demand to be satisfied. Such favourable conditions as we now seek cannot be satisfied under our present policy of *Laissez faire*, *Laissez passer*, but only under the science of national economics based on freedom of trade.

WHAT IS FREE TRADE? ITS DERIVATION

Now with regard to the term "Free Trade" which is so commonly used, what does it mean and what is its derivation? After a very lengthy research we found that the expression "Free Trade" owed its origination to Adam Smith's policy of "Freedom of Trade," and they are not

at all synonymous.[1] Another instance of the public being led astray through following a catch or sentimental phrase.

For some reason or other modern economic writers, particularly in the last century, have misinterpreted the Smithian doctrine of freedom of trade based on National Economy, for free trade. As we have already indicated in our previous work, the term freedom of trade is not quite the same thing as free trade; the latter is merely a loose form of expression, and hence the reason for the question which is often asked, "What is free trade?"

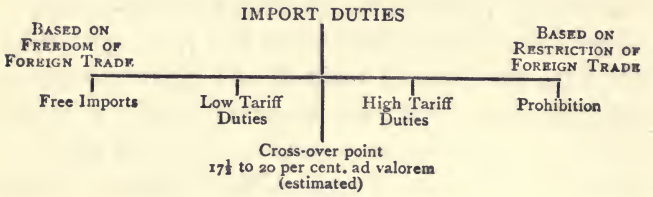
The public in the past have usually divided themselves into two groups, *i. e.* either the free trade group or the protectionist group. But very few individuals really understand the significance of either of these expressions, or what they mean. They are content to call themselves Free Traders or Protectionists, but if you were to ask them for the foundation of their belief few could give it.

Individuals should be invited to take their stand upon two issues, *i. e.* whether they desire the national business policy to be based on freedom of trade (not free trade, for there can be no such thing), or on restriction of trade, which is a protective or prohibitive policy. Universal free trade

[1] The subject is more fully dealt with in *On the Relation of Imports to Exports* (Peddie).

is impossible, but universal freedom of trade on the lines suggested hereafter is possible because it does not infringe on the doctrine of Equality of Rights.

The following chart will indicate the proper classification—



From the chart it will be seen that the two extremes are prohibition and free imports, both of which in a national policy are impracticable, and this applies to any working agreement which may be concluded between the Allied Governments for the development of their export and import trade at the conclusion of the war. We cannot prohibit imports, for to do so would defeat the object of exchange; we must import in order to be able to export. The nearest approach we can make to actual prohibition is to adopt the restrictive or protectionist policy of high tariffs, which in America, for instance, is considered a practical policy.

Similarly, we cannot have free imports in advanced and finished materials or manufactured utilities any more than we can have free service

without payment. National Services must be paid for, and all foreign and domestic industry should be made to contribute alike, through the medium of import duties and taxation, to the cost of such services. National Economics, therefore, to be based on freedom of trade, must come under the heading of low tariff duties, for high tariff duties make for restriction of trade.

It is gratifying to note that the London Chamber of Commerce in the tariff schedules which they recommend for adoption by the Government, published in *The Times* recently, adopt our formula of National Economy based on freedom of trade, with the limit of twenty per cent. *ad valorem* which is the maximum allowed under this system; and it is to be hoped that the Chamber will continue to identify itself with the new movement and press forward this much-needed reform.

Although we place the maximum duties at twenty per cent. *ad valorem* on manufactured utilities, it does not necessarily follow that this percentage should be adopted indiscriminately; the precise duties to be imposed should have some relation to the amount of taxation, and other charges, which home manufacturers have to pay towards the cost of our national services. It is just possible, however, that when the war is concluded it may be found necessary to impose the maximum percentage in the tariff schedules, and continue them for some years to come, in view of

the high direct taxation which it will be necessary for the Government to impose to meet the interest charges on our war loans. But on no account should the percentage ever be increased beyond twenty per cent., the reason being that this amount covers the manufacturer's average profit. It should also be borne in mind that twenty per cent. *ad valorem* equals twenty-five per cent. on cost.

THE THEORY OF AMERICAN PROTECTION

As we have more than once asserted, an import duty upon manufactured utilities is not paid for by the consumer; but this proposition applies to standardised utilities only and not to those which are not subject to repeat orders, nor to food, food products, or natural materials.

In 1911 we prepared a comparative price list of various standardised machine tools and small tools, which the *Morning Post* very kindly published, showing (1) the price of these instruments made in the United States locally; (2) the price in Great Britain of the same manufactures; (3) the price in the United States of the British-made productions, plus the duty which would have to be paid by the consumer in the United States who desired to have the British-made articles.

It will be difficult to find a clearer demonstration than is shown in the figures printed below. It clearly shows that American manufacturers, in normal times, are unable to take advantage of the high tariff duties to raise the price of standardised articles of utility against the home consumer. General competition, and the rate of discount prevailing on the money-market, regulates the price at which these articles are sold. This proposition would apply to British manufacturers as well as American.

As we have previously indicated, large profits are the reward of enterprise, but so soon as an industry has proved itself, competition steps in and profits are reduced in proportion to the extent of the competition and the rate of discount on the money market. Thus, large production ensures low cost of production per unit of goods produced, and, *ipso facto*, ensures cheapness in the selling price.

In the following table of comparative prices, the British prices which are shown were the lowest quotations taken from the catalogues of two important British manufacturers, and the American prices were obtained direct, or through the agents of important American firms. It should be noted that the American tariff duties range from thirty to forty-three per cent. *ad valorem*, which entirely prohibits the export of the articles mentioned to America.

Description.	U.S.A. Price.			British Price.			U.S.A. Price for British Article plus duty.		
	£	s.	d.	£	s.	d.	£	s.	d.
Standard Shell Reamers, 1 in.	0	5	0	0	6	7	0	8	7
Standard Rose Shell Reamers, 1 in.	0	5	0	0	6	7	0	8	7
Standard Hand Reamers, 1¼ in.	0	12	6	0	12	5	0	16	2
Machine Reamers	0	10	7	0	9	7	0	12	5
Rose Chucking Reamers, 1 in.	0	6	6	0	7	11	0	10	4
Reamers for Morse Taper Holes, roughing or finishing, No. 3	0	9	5	0	10	4	0	13	5
Adjustable Hand Reamers, 1¼ in.	0	19	9	1	2	0	1	8	7
Involute Gear Cutters, 1¼ D.P., 7¼ in. dia. × 1½ in.	4	12	4	4	11	10	5	19	4
Stocking Cutters, 1¼ D.P., 7¼ in. dia. × 1½ in.	2	16	0	2	14	9	3	11	2
Plain Milling Cutters, 2½ in. dia. × $\frac{3}{16}$ in. × 1 in.	0	3	6	0	3	9	0	4	10
Milling Cutters with Nicked Teeth, 2½ in. dia. × 4 in. × 1 in.	0	17	10	1	2	1	1	8	3
Side and Face Cutters, 4 in. dia. × ½ in. × 1 in.	0	13	3	0	12	10	0	16	8
Convex Cutters, carbon steel, $\frac{3}{16}$ in. dia. circle × 2 in. dia. cutter	0	6	3	0	5	4	0	6	11
Concave Cutters, $\frac{3}{16}$ in. dia. circle × 2 in. dia. cutter	0	7	6	0	7	4	0	9	6
Machinist Hand Taps (3 to a set), $\frac{3}{8}$ in.	0	2	6	0	2	11	0	3	10
Hand Chasers (Whitworth), 3 threads	0	4	0	0	4	6	0	5	10
Machine Chasers, 3 threads	0	5	9	0	5	5	0	6	7
End Mill, spiral teeth and steel shanks, ½ in. dia.	0	5	5	0	4	8	0	6	1
Metal Slitting Saws, 5 in. × ⅛ in. × 1 in.	0	3	11	0	3	9	0	4	10
Micrometers, 1 in. to measure by thousandths of an inch	0	13	1½	0	15	0	0	19	6
Twist Drills, M.T. shanks, ½ in.	0	1	5	0	1	6	0	1	11
Twist Drills, straight shanks, ½ in.	0	1	0	0	1	6	0	1	11

Description.	U.S.A. Price.			British P Price			U.S.A. Price for British Article plus duty.		
	£	s.	d.	£	s.	d.	£	s.	d.
Four Grooved Drills, M.T. shank, ½ in. . . .	0	5	3	0	5	0	0	6	6
Little Giant Drill Chucks, No. 0.	1	0	0	0	18	7	1	3	2
Hand Taps (Whitworth Standard) (3 to a set), Taper Second and Plug, ⅜ in. . . .	0	2	6	0	3	10	0	5	0
Standard External and Internal Cylindrical Gauges, Ring Gauges, ½ in. dia. . .	0	16	3	0	15	10	1	0	7
Plug Gauges, ½ in. . . .	0	10	8	0	10	5	0	13	8
Plain Pillar Milling Machine with overhanging arm and automatic feed, but without vice. Automatic longitudinal feed of table, 10 in. Transverse adjustment of table, 3¾ in. Greatest distance from centre of spindle to table, 8 in. Complete with countershaft and spanners . .	43	0	0	42	0	0	59	13	3
Horizontal Milling Machine complete with arbor, countershaft and spanners. Longitudinal feed of table, 21 in. Gross movement, 7 in. Greatest distance from centre of spindle to table, 16 in. .	114	10	0	114	0	0	162	16	6
Heavy Horizontal Milling Machine with all power feeds, complete with arbor, countershaft and spanners. Longitudinal feed of table, 28 in. Transverse adjustment of table, 9 in. Greatest distance from centre of spindle to table, 19 in. . . .	171	17	6	167	10	0	239	10	0
Same as above. Longitudinal feed of table, 34 in. Transverse adjustment of table, 10 in. Greatest distance from centre of spindle to table, 20 in.	179	0	0	210	10	0	300	19	0
Universal Milling Machine									

Description.	U.S.A. Price.	British Price.	U.S.A. Price for British Article plus duty.
	£ s. d.	£ s. d.	£ s. d.
with all power feeds complete with universal dividing head with 3 index plates, one reversible base block, tail-stock, driving plate, work support for long work, 3-jaw universal chuck, set of change wheels with quadrant, carrier, index chart, arm brace, arbor with distance collars and bushes, collet, swivel vice, oil pump and fittings, two-speed countershaft and spanners			
Automatic feed, longitudinal, 24 in. . . . . Automatic feed, cross, 8½ in. „ „ vertical, 18 in.	182 5 0	178 10 0	256 2 6
Universal Hand Transverse and vertical feeds, automatic feed, longitudinal, 24 in. × 8½ in. × 18 in., complete as above	171 17 6	169 5 0	243 14 3
Vertical Milling Machine without vice, complete with countershaft and arbor. Longitudinal feed of table, 30 in. Automatic transverse adjustment of table, 12½ in. Greatest distance from centre of spindle to table, 20 in. . . . (In this machine the American make has all power feeds, while the British has only longitudinal feed, automatic. They, however, form a fair comparison.)	160 18 6	170 10 0	243 17 0

NOTE.—"Comparisons similar to the above can be obtained in the following industries, viz.: Grinding Machines, Steel Rails, Boots and Shoes, Watches, Jewellery, Sporting Rifles and Guns, Household Utensils, Typewriting Machines, Sewing Machines, Cash Registers, etc."

If, then, we were to put an import duty on the American productions equal in amount, i. e. *pro rata*, to the total direct and indirect taxation, including the cost of operating the Factory Acts, Workmen's Compensation and Insurance, etc., British manufacturers have to pay, and which might equal fifteen per cent. *ad valorem* on imports, we should not seriously interfere with the competitive power of the United States owing to her large producing capacity, but we would ensure that American manufacturers who sought to use our markets contributed to the cost of our National Services; not only that, but by so doing we should also establish the principle of equality of rights in so far as our own manufacturers are concerned by placing competition upon a just and equitable basis.

If further evidence is needed to prove that American manufacturers are unable to derive any advantage from the American tariff system, it is contained in the facts which Mr. Moreton Frewen submitted in his essay on the "Theory of American Protection" in the *Nineteenth Century Magazine* for November 1910.

"Now as to the effect of Protection on Prices. There is the striking incident of Muscadine, the Pearl-button Metropolis on the Wisconsin River, created by the stroke of a pen in the McKinley Bill. Pearl shirt-buttons, previously on the free list, had been all imported from Austria. But it

was rumoured that the raw material—great beds of fresh-water mussels—had been discovered in the upper tributaries of the Mississippi. The result of a high tariff on shirt-buttons in the McKinley Bill of 1890 was to bring over to settle within the protected area a Viennese button manufacturer with a capital of £4000 and a few skilled hands. From this small beginning the turnover eighteen years later in the factories on the Wisconsin (1908) was $11,000,000, and the price of shirt-buttons has fallen one-third. In the debate on the Wilson Bill in 1893, Mr. (now Senator) La Follette said—

"'In earthen and glass ware the total importation last year was $18,420,634. This is practically all labour. Our people remember that before 1860 we imported all our pottery; that the duty was increased from 20 to 55 per cent.; that American capital was interested and American labour employed; that by 1880 we were manufacturing pottery in every State of the Union except one, and that under the duty of 55 per cent. we reduced the price steadily year by year until the reduction was 40 per cent. below the price we had paid for crockery under the tariff for revenue. . . . Our people remember when all the wire rods from which fencing is manufactured were imported from Germany. We imported 150,000 tons a year at a cost of $60 per ton. They remember that we greatly advanced the duty on these rods in the tariff of 1883; that now, ten years later, we are manufacturing nearly half a million tons of these rods, and their price has fallen nearly one-half.

From this reduction in the price of the rods our fencing wire has fallen ten cents a pound to four cents.'

"Or, again, take the case of tinplate. In 1873 tinplate was selling at $12 per box of 108 lb. Until the McKinley Tariff of 1890 all tin was imported. Two years later, with the high duty, the entire United States production of tinplate was but 590 tons. In 1908 the production was 580,000 tons. What would to-day be the world's price of tin but for American production through Protection? What, again, would be the world's price of bread if France, a producer of over 40,000,000 quarters of wheat because of her high tariff, were a customer for, instead of a producer of, these 40,000,000 quarters?

"Take, again, the case of men's gloves. Gloves were on the free list in the McKinley Tariff of 1890. The Dingley Tariff of 1897 imposed a heavy duty, and this is the statement of Mr. Payne, the Chairman of the Committee on Ways and Means, when under the new Act of last year he demanded a similar duty on women's gloves also—

"'Under the McKinley Tariff we were making 5 per cent. of our men's gloves; to-day we are making 90 per cent., and men's gloves are much cheaper than they were when we put the duty on them.'

"Again, take the instance of wire nails. In 1882 there were made in the United States just 50,000 kegs of wire nails. Their price at that

time was $8\frac{1}{4}$ cents per lb. and the duty 1 cent. The McKinley Tariff of 1890 raised this duty to 4 cents. If the amount of the duty (4 cents) were added to the price ($8\frac{1}{4}$ cents) wire nails should have risen to $12\frac{1}{4}$ cents, whereas in 1901, eleven years later, the United States production of nails had risen from 50,000 kegs to 9,802,822 kegs. America is now an immense exporter, and the price of the nails has fallen to $2\frac{1}{2}$ cents per lb., or, declares Senator Gallinger, to 'less than one-third of what they cost us when we were dependent upon foreign countries.'

"When I first visited America in 1878 steel rails were selling at $67 per ton. A duty of $27 was imposed, and steel rails now, one year with another, sell for about the amount of the duty."

A very popular illusion prevails with regard to the establishment of new industries in particular localities. It is very commonly asserted, for instance, that no community can manufacture cotton in competition with Manchester, as the latter district is favoured by nature with a peculiar form of moist atmosphere which gives to the cotton fabric a sort of superior finish; also that stout cannot be manufactured anywhere as well as in Dublin, because that locality is favoured by a peculiar natural water which gives a particular nip to the liquid; and that beer cannot be made anywhere as well as at Burton-on-Trent, as the water there has peculiarities all its own; and that

nowhere else can carbon steel or high-speed steel be manufactured as well as those produced at Sheffield on account of the water of the river Don having a particular influence on the metals.

Needless to say, these are all pure fallacies; the reason why other communities cannot manufacture the same commodities possessing the same qualities as those mentioned is that they do not possess the same particular experience, knowledge, and tradition, which virtues can only be acquired at the expense of custom and time. Money cannot acquire the experience and knowledge which the local labour has acquired; in addition to which there is a certain standard of proficiency in regard to the quality and finish of the production which prevails to which all the local labour subconsciously or consciously directs its energies. But such standards are not created by climate or any other natural conditions: they are created and acquired by the local communities through long training and habit.

A very useful illustration is to be found in the case of the small arms industry. The home of this industry is in Birmingham, yet the Government have a small arms factory established at Enfield Lock, near London. The cost of production of the small arms at the latter place is not as low as at Birmingham, nor the quality as good, simply because the traditional habits and standard

of proficiency prevailing in the locality is not so high.

The only manner by which these difficulties can be overcome by those who contemplate starting a new industry which is foreign to a community is to obtain the best of the brains, experience, and intelligence from the community possessing these the most, and to secure the most modern and up-to-date plant, embodying the latest practice, which brains, experience, and intelligence consider to be the best available for the purpose.

Any country or community can establish a new industry within its borders provided it is content to spend the money and the necessary time in acquiring it, and has a sufficiently large market in which the production can be consumed or distributed. The popular illusion, therefore, that climatic conditions or nature has any influence on the successful development of a manufacturing industry is erroneous. The only direction in which nature or climatic conditions have any influence is in the growth or development of natural materials; some grow best in tropical zones, others in temperate zones; or, again, nature and climatic conditions may have an effect on the energy and quality of labour: it is well known that white men work at their best in temperate zones.

Beyond these instances, however, we know of

no other direction in which production can be materially affected by nature or climatic conditions which men with enterprise, experience and intelligence cannot overcome; and this is the general theory underlying American Protection.

ADAM SMITH'S NATIONAL ECONOMY BASED ON FREEDOM OF TRADE

Smith may be considered to have been, and is still, for that matter, the greatest of all our political economists; he laid down the basis of the science of National Economy based on freedom of trade, but his theories have been greatly misunderstood; it would seem to be desirable, in the solution of the problems we now have before us, that we should revert to the principles he so ably enunciated.[1] Smith's National Economy was intended by him to be a running-through system, *i. e.* a theory of the general principles which ought to run through and be the foundation of the laws regulating the development of the industry, commerce and justice of all nations. In other words, he obviously contended that it was possible to reduce National Economy to a definite science by which cause and effect could be accurately determined.

[1] See *On the Relation of Imports to Exports* (Peddie), pp. 89–137.

Smith gives a clear indication of what was in his mind at the end of his work, *On the Theory of Moral Sentiments*. On pages 339 and 340, Section IV, Part VII, he writes as follows—

"It might have been expected that the reasonings of lawyers, upon the different imperfections and improvements of the laws of different countries, should have given occasion to an inquiry into what were the natural rules of justice independent of all positive institution. It might have been expected that these reasonings should have led them to aim at establishing a system of what might properly be called natural jurisprudence, or a theory of the general principles which ought to run through and be the foundation of the laws of all nations. But though the reasonings of lawyers did produce something of this kind, and though no man has treated systematically of the laws of any particular country, without intermixing in his work many observations of this sort; it was very late in the world before any such general system was thought of, or before the philosophy of laws was treated of, by itself, and without regard to the particular institutions of any one nation. In none of the ancient moralists do we find any attempt towards a particular enumeration of the rules of justice. Cicero in his *Offices*, and Aristotle in his *Ethics*, treat of justice in the same general manner in which they treat of all the other virtues. In the laws of Cicero and Plato, where we might naturally have expected some attempts towards enumeration

of those rules of natural equity, which ought to be enforced by the positive laws of every country, there is, however, nothing of this kind. Their laws are laws of police, not of justice. Grotius seems to have been the first who attempted to give the world anything like a system of those principles *which ought to run through, and be the foundation of the laws of all nations;* and his treatise of the laws of war and peace, with all its imperfections, is perhaps at this day the most complete work that has yet been given upon the subject. *I shall in another discourse endeavour to give an account of the general principles of law and government, and of the different revolutions they have undergone in the different ages and periods of society, not only in what concerns justice, but in what concerns police, revenue, and arms, and whatever else is the object of law;* I shall not, therefore, at present enter into any further detail concerning the history of jurisprudence."

The italics are ours.

We have felt it desirable to submit this quotation for consideration in the present discourse in order to demonstrate, as we have already suggested, that Smith has been greatly misunderstood and misinterpreted. Some people may say, of course, that it does not matter what Smith thought in his generation—we have our own difficulties to solve. But it does matter inasmuch as we require to pay attention to those modes of thinking which in the

past have largely and seriously influenced public opinion, and in which we may find the roots of our present economic system and trouble. If we can place these in proper perspective, may we not then be going a long way towards persuading present-day tariff reformers and free traders, and particularly the working men, to look at the problem of national efficiency from the same angle of vision, and, by so doing, assure that the Paris Economic Resolutions will be adopted wholeheartedly and made workable in a definite and precise economic scheme. But whatever the ultimate decision may be we must do everything we possibly can to avoid the reintroduction of anything resembling the Mercantile System in this country. We mention this because we note there is a tendency in the Paris Economic Resolutions to revert to this system, but we hope it will be destroyed in its initial stages.

No matter how strong our anti-German feeling may be, we must discountenance the granting of monopolies and privileges, bounties and subsidies, to privileged corporations for exploitation. The most effective way of dealing with Germany and her allies after the war in the economic sphere of activity is to adhere to sound economic principles, and which, above every other consideration, should be consistent with democratic principles and democratic government. We shall have occasion

to refer to this aspect of the question again at a later stage.

The economic science which prevailed in Adam Smith's time was the Mercantile System, *i. e.* the granting by the State of monopolies and privileges, bounties and subsidies, to certain companies for exploitation combined with high tariffs, and the sole purpose he had in view in writing the *Wealth of Nations* was to destroy this system, in which object he ultimately succeeded. At the same time Smith sought to establish the science of "National Economy based on Freedom of Trade," which system was intended to run through and be the foundation of the laws regulating our industry and commerce; but instead of this our eighteenth-century economists led us on to the science of *Laissez faire* and *Laissez passer*, which time and history have proven to be unsound.

Smith's system was constituted on, and provided for, the adoption of low tariffs; and although it may not be generally realised, the Americans have at the present moment a system of National Economy based on restriction of trade. *i. e.* constituted on high tariffs, and if a Republican majority is obtained at the elections next November we may look forward to seeing the import duties on manufactures being restored to the high level which prevailed during the last régime of the Republicans.

The great and leading object of Adam Smith's

fundamentals, as is commonly known, was to demonstrate that the most effectual plan for advancing a people to greatness was to maintain that order of things which nature had pointed out, and to allow every man, so long as he had not violated the laws of justice, to pursue his own interests in his own way, and to bring both his capital and his industry into the freest competition with those of any other man or order of men, whether at home or in foreign countries. But he also stated that it would appear to be "generally advantageous to lay some burden upon foreign for the encouragement of domestic industry, when some tax is imposed at home upon the produce of the latter. In this case it seems reasonable that an equal tax should be imposed upon the like produce of the former. This would not give the monopoly of the home market to domestic industry, nor turn towards a particular employment a greater share of the stock and labour of the country than what would naturally go to it. It would only hinder any part of what would naturally go to it from being turned away by the tax into a less natural direction, and would leave the competition between foreign and domestic industry, after the tax, as nearly as possible upon the same footing as before it." A further argument that Smith put forward was that "Defence was of more importance than opulence."

These, then, are the views of Adam Smith, the genius who is supposed to have sown the seeds of the present system of free trade, whatever that means. But he was no more a free trader as it is understood at present than was Joseph Chamberlain. Some people may question this view, but it is indisputable. That Smith had in mind a National System may be gathered from the fact that he began his great work with two volumes on *The Theory of Moral Sentiments;* and followed these with *The Wealth of Nations.* Had his life been spared a few years longer it was his intention to have developed a further work on the theory of jurisprudence which he had long contemplated and projected. There is here indicated system and order.[1]

Now our main purpose in referring to this particular aspect of the question again is to explode certain abstract theories and the accompanying catch phrases which usually come forward in a discussion of this sort, and to make the tariff reformers and the free traders realise that they have been, as it were, "chasing the shadow and not the substance." And that the strength and efficiency of the nation in the affairs of nations should be the main and paramount consideration with all, Liberal or Tory, at this stage of our life.

[1] See further references, see pp. 241 herein.

And that on no account should the granting of bounties or subsidies be permitted.

If both sides can be made to realise this, then the ground is clear for common action to be taken in the development of the Paris Economic Resolutions; of a strong national and imperial policy; and also a sound scheme of imperial federation which, in the light of war experience, all shades of political opinion in this country now seem to consider to be essential and desirable.

CHAPTER II

ON THE CONDITIONS REQUIRED TO MAKE THE PARIS ECONOMIC RESOLUTIONS WORKABLE AND EFFECTIVE

THERE has never been such a call upon the elder democratic European nations to make such personal and material sacrifices for the cause of Liberty, Freedom and Justice, as in the case of the present war, and it is to be hoped that there will never be another. And similarly there will never be such a penalty imposed upon the elder Democracies who have fought for and maintained the principles of Liberty, Freedom and Justice throughout the world as the one they will have to assume at the conclusion of the war. The costs of the war, and the enormous taxation which must be imposed to meet the interest charges and liquidate capital debt as the inheritance of war, can only be provided for out of the future profits of industry, and it will necessarily result, with the National Economic System which prevails with us at present, in a general liquidation of wages and

prices. In fact, no matter what system prevailed, it would, unfortunately, be impossible to stop the liquidation which must ensue; but it is possible to mitigate the severe depression which will inevitably come, and National Economics based on freedom of trade is the instrument which it will be necessary to employ in the United Kingdom to effect this purpose.

The Paris Economic Resolutions are a step in the right direction; they are and can only be the proper basis of the new adjustment which will have to be made in the Allies' export and import trade in view of the cause and origin of war; but by what manner of means can these be made the most workable and the most effective? Under what system do we propose to apply them? It should be borne in mind that the Economic Policy we are now committed to by the adoption of the Resolutions involves a considerable change and dislocation in the character of the import and export trade transacted by us previous to the war, *i. e.*, for instance, in the year 1913–14. The source and origination of our previous trade will be materially altered, and it will necessarily take some considerable time before our merchants and manufacturers settle down to the new conditions. It is desirable, therefore, that no time should be lost in bringing into operation effective economic working conditions within which all phases of

national activity can be allowed full scope and play. Preparations will have to be made, and obviously as much time as possible should be allowed for this purpose.

We are well aware of the congestion of Parliamentary legislation and obviously of the strain and high pressure to which our Ministers are subject in the conduct of their respective offices. But this particular aspect of the question is not peculiar to war conditions alone; it had its origination in the empirical system of *Laissez faire* upon which in peace time all Government conduct and policy was based. In our private life, however, if we are afflicted with a disease or a growth, we usually, with the aid of the best medical and surgical advice available, apply drastic remedies to cure. Any disease or growth in the system of Government which vitally affects the life of the nation can be no exception to the rule. It therefore can be no excuse to say that such remedial measures as may be necessary to achieve our purpose cannot be effected in war time. In the science of government, practice and theory should at all times be synonymous. If this be so, then the machinery of government should be capable of dealing with such questions as we now raise, at all times, either in peace or war.

It is with a view, therefore, of rendering such assistance as we can that we now proceed to

examine the considerations which arise out of the Resolutions.

In the problems we have to solve, it should be remembered that we have not only ourselves to consider, but our Allies, the Dominions, and Neutrals; and lastly, but not by any means the least, we have to be careful to ensure that the measures we may seek and ultimately apply in order to make the results effective shall not constitute a hardship upon the workpeople of each of the Allied countries concerned, *i. e.* the velocity of the circulating media and wages should, consistent with the new working conditions and circumstances which will prevail, be maintained at the highest maximum possible, as otherwise the Resolutions will lose their utility and vitality.

It should be our main achievement to divert as much of the international trade formerly transacted by Germany to our Dominions, France, Russia, Italy and our other Allies in the shortest possible time so that we may collectively endeavour to reach the total volume of trade transacted by the world in the year 1913, which, it will be obvious, will be necessary in order to maintain our respective populations in an equally or more prosperous condition after the war is concluded.

The anti-German feeling is very strong among our people, and will be for many years to come, but we should be careful, nevertheless, not to place

ourselves in the position of the obstinate person who "cut off his nose to spite his face."

Our national inclination is to refuse to have any international intercourse with the Germans after the war. But would it be wise to pursue this natural sentiment to the extreme? In view of the fact that we must necessarily, by taking extreme measures, be limiting the purchasing power and financial activity, of the international market as a whole.

The safest and perhaps soundest course to pursue, in the circumstance, would be to allow public sentiment to be the sole arbiter as to the tendency of our future international trade, for it will of itself be the determining factor. Beyond establishing proper national working conditions and settling the future political position and relations of the European nationalities, it would be unwise of the Government to introduce special legislation of a restrictive nature against enemy countries; it would only disturb international transactions in the economic world long after peace is restored.

Germany and her Allies should be allowed to resume their position in the comity of nations after peace is declared, subject to the provisions such as we will hereinafter specify. To act otherwise would only hinder the establishment of a permanent and lasting peace. Let us above all

secure the overthrow of militarism and substitute in its place healthy and legitimate competition in industry and commerce, the arts and sciences which, notwithstanding anything that may be said to the contrary, is to the general advantage of the people of all nations.

In view of prevailing sentiment it requires a great deal of courage to advocate such a policy at the present time; but our sole and main purpose is to safeguard the future welfare of the people; and particularly the men who will return from the trenches at the conclusion of the war, for whom profitable employment will have to be found. Anti-German sentiment and material welfare would not be good bed companions in times of adversity; they are certain to divorce themselves, and will perhaps do so presently.

ON ENEMY ALIEN TRADE AFTER THE WAR

It would be safe to assume that if an indemnity is imposed on Germany it can only be liquidated by the export of manufactures, natural materials, or other merchandise. And the larger the indemnity the more must Germany export.

Now, assuming the indemnity to be imposed is placed at £5,000,000,000, the interest charges alone, based on a five per cent. basis, would be £250,000,000 per annum, and this sum could

only be met and provided for out of Germany's export trade. And if capital redemption be included the total interest and capital charges would, no doubt, be between £350,000,000 and £400,000,000; add to this Germany's after the war minimum normal trading power in exports and you get the enormous total of at least £750,000,000, perhaps £850,000,000, which Germany would have the power to export, and we unfortunately cannot stop it, *i. e.* if we impose the indemnity which, of course, is unavoidable.

The figures mentioned are not fanciful, bearing in mind the experience of the Franco-Prussian War. It will be remembered that France was industrially very active during the time she was liquidating the indemnity to Germany, whilst the latter was undergoing a period of industrial depression during the same period.

We have also to bear in mind that Germany, in order to be able to export her various manufactures so as to correct her adverse Foreign Exchanges and meet her liabilities, must be so placed as to have the power to import all natural materials, etc., she may require with which to begin and complete her manufacturing processes. There will be contained in the value of the manufactures and other goods exported by Germany a certain proportion representing natural materials which German manufacturers will have to pur-

chase in foreign countries. If Germany, therefore, is to continue to do this, she must be placed in the position to export further goods, over and above the amount required for the interest and capital charges of the indemnity, to cover the cost of the materials required for these services, and her own domestic requirements.

As she can, therefore, only pay for such natural materials as she may require by further exports, the minimum figure of £750,000,000 mentioned above can in no sense be considered fanciful.

The statement that is made that it would be impossible for Germany to transact such a colossal business as is mentioned because she will be a bankrupt nation is all moonshine. It is true that financially Germany will be bankrupt, but her people must live and find an outlet for their energies, particularly if they are called upon to pay an indemnity. Bankruptcy means a liquidation of wages and prices, but does this not add to the danger in the case of Germany, having regard to the fact that her industrial efficiency is second to none? It is a pure dream to imagine that German organisation, her scientific methods, her experience and knowledge of production, can be destroyed through bankruptcy. These things are a wealth in themselves. Does it not rather mean that Germany, in the event of bankruptcy, must of necessity produce on a lower basis of

cost than the Allies in order to rehabilitate her position and pay the indemnity that may be imposed.

In view of the foregoing it may be seriously questioned whether the imposition of a substantial indemnity on Germany that can only be satisfied by German exports is worth while. Personally, we doubt the advisability of it. At the early stages of our investigations we thought it was, and that the indemnity ought to be imposed in such a manner as to make its liquidation as long and as tedious as possible; and that Germany ought not to be allowed to liquidate the indemnity in a short period of time, but that the penalty should be imposed in such a manner as to make its burden felt "even unto the third and fourth generations" —say seventy-five to a hundred years—in order that future German generations might be made to fully realise the sins and iniquities of the present. In other words, that Germany should be made "the hewers of wood and drawers of water" for the Allies for generations to come; but the application of this sentiment, and it is nothing more than a sentiment, raises all sorts of difficult and complex problems. In giving way to this sentiment we should be losing our dignity and overlooking the fact that the strength of our economic future can only be safeguarded by the adoption of sound economic principles as the basis of our future

national business policy; no anti-German sentiment should be allowed to dominate or weaken our better judgment in this respect.

Our principal and main achievement should be to extract from Germany as large an indemnity as she can be made to pay in the short space of two years. And if it should be our privilege to have the power to impose an indemnity we should also, *ipso facto*, have the power to effect a redistribution of German, Austrian, Bulgarian and Turkish territory; also to ensure the delivery of a portion of their Mercantile Fleet of an amount sufficient to cover the ton for ton theory—*i. e.* such of our losses as are due to their submarine campaign. It is in this direction, we believe, that our future course of action and energies should be directed.

An indemnity which can be imposed and liquidated in two years combined with a redistribution of German, Austrian, Bulgarian and Turkish territory and the introduction of proper parliamentary Government would be, in our view, the most effective means of assuring the future peace of Europe and that tranquillity and equilibrium in the economic world which we all desire to see established after the conclusion of the war.

ON ALLIED TRADE; AND THE NECESSITY OF CO-ORDINATING TARIFF SCHEDULES

Each of the Allied countries and dominions have tariff schedules which were designed to protect, and advance, the welfare of their respective national industries in accordance with the political views and ideals prevailing prior to the war. It is obvious, therefore, that as each of the Allied countries were pursuing an economic policy seemingly beneficial to themselves prior to the war, the present tariff schedules, being the natural outcome, have obviously lost their utility when it comes to effectively dealing with, and applying, the Paris Economic Resolutions, unanimously approved of, and adopted, by representatives of each of the Allied Governments in conference.

The strategy of the Military Commands of the Allied Governments have been co-ordinated in order to deal effectively with the enemy; does it not therefore follow that it is just as essential for them to co-ordinate their tariff schedules in like manner if it is the intention to deal effectively with the Paris Economic Resolutions, about which, we presume, there can be no question or shadow of doubt.

If this be so, then by what manner of means can we accomplish the desired object? for unless the

tariff schedules are co-ordinated there will come a time when our Allies will charge us with having pursued our own interests to their detriment. We shall be the strongest power industrially and financially among the Allies, and will probably have the greatest voice in the settlement of peace terms and of the economic conditions which are to prevail after the war between the various belligerents; but this should make us all the more careful to safeguard the interests and welfare of those of our Allies who have made every possible sacrifice equally with us in the struggle with the enemy. In so far as our Allies are concerned, if we are to secure that future peace, co-operation and harmony, so much desired, we shall have to practise what we preach. If we desire all those who identify themselves, or come in contact with us, to absorb our views on the principles of Liberty, Freedom and Justice, and our views of world politics, whether in the political or economic domain, and "that higher justice and larger freedom which, rightly or wrongly, we associate with the temper and character of our race wherever it is dominant and secure," we must see to it—and it is our bounden duty to do so—that everything possible is done to make good the ravages and havoc of war in the countries of our Allies; that the national industries that have been destroyed by the enemy are restored; and that we shall assist in

diverting as much as we can of our trade to them formerly transacted by us with Germany, Austria, Bulgaria and Turkey. Nor should we forget Ireland in the final settlement.

This may, of course, be considered a selfish policy by neutrals, but our answer is that we have to liquidate the costs of the war forced on us by Germany and Austria in the defence of Liberty, Freedom and Justice, whilst they have been holding aloof and earning large profits in satisfying our requirements; and in so far as our enemies are concerned it may be characterised as one of the consequences and penalties of war, only to be modified, or rectified, as time and circumstances may dictate. In pursuing a policy such as we now indicate future generations will then come to realise that war, no matter what seductive attractions, or possibilities, it may hold out, even if successful, does not pay.

In order to achieve our purpose, therefore, the Allied Governments should respectively adopt the Science of National Economics based on freedom of trade, with a maximum of twenty per cent. *ad valorem* on all duties imposed. Each of their tariff schedules should be standardised, *i. e.* all imports duties should be of a like amount, and Germany, Austria, Bulgaria and Turkey should be called upon to pay a war sur-tax of fifteen per cent. of the duties specified in the

schedules which ought, with the short-dated indemnity we may impose (which should take precedence of all enemy internal and external war loans), and the redistribution of territory previously suggested, to satisfy our requirements and check any dumping programme which our enemies may be inclined to indulge in after the war is concluded.

The war sur-tax of fifteen per cent. would not be sufficiently high to prevent Germany and her allies, or what is left of them, from trading with ourselves, the Dominions and Allied countries, during the preliminary reconstruction period of five years suggested. But it would be their contribution towards the larger indemnity which we would have liked to impose, but which on technical grounds we cannot enforce. It would, in fact, be repayment on the deferred payment system.

If their merchants and industries are able to trade with us on those terms, well then, let them trade—there would not be much profit left to them on the business they may be able to transact. The course of action suggested would not disturb the working of the international economic machine, but it would be extremely effective in accomplishing our purpose.

The Allies cannot afford to adopt a high protective or prohibition policy against Germany and her allies; but if they wish to eliminate their

dumping power the only thing to do is to adopt the plan now suggested.

Of course, Germany and her allies may attempt to evade direct trade with the Allies in order to avoid the sur-tax; but should she trade through neutrals for this purpose, then the neutral countries concerned should be notified that all exports from such countries, whether of neutral or enemy origin, will be subject to the sur-tax. This method would put an effective check on any evasion that may be attempted by them.

It would indeed be very foolish, and derogatory to our prestige, to frame our future national policy upon anything but our national interests. As we have previously stated, the most effective way of dealing with Germany and her allies in the economic sphere of activity is to adhere to sound economic principles, and which above every other consideration should be consistent with sound Democratic principles and Democratic government.

The national interests demand that we should safeguard ourselves against exploitation by Germany as in the past. Let us make the British Empire strong, self-sufficient, and above all independent, and we can look forward to the future with every confidence, with a dignity consistent with our past history, and without fear or hate.

In national power and efficiency in the economic domain, as well as in the military domain,

we have the secret of peace. As we have stated on a previous occasion, the strength of the nation in the affairs of nations should be our paramount consideration, and if we safeguard ourselves in this respect we need not fear Germany's future economic policy, nor the coming competition from the United States.

"When a strong man armed keepeth his palace, his goods are in peace."

It would, therefore, be economically unsound for reasons stated to adopt a prohibition or high protective policy against Germany, Austria, Bulgaria and Turkey. Would it be wise to maintain the world in an economic turmoil? to maintain conditions which could do nothing but create jealousies and maintain hatred, after the present horrible war is over? It would surely be more expedient, after having revised our pre-war national and imperial economic views, to revert to economic tranquillity at the earliest possible moment.

A wise creditor will never impose conditions upon his debtor of a nature that will prevent him meeting his liabilities or repaying his just debts; similarly, we ought not, nor can we afford to, impose such conditions as will prevent Germany and her allies, or what is left of them, taking their place again in the economic world; always providing that in the terms of peace to be con-

cluded the Entente governments are assured that proper parliamentary and democratic government will be enforced in enemy countries in lieu of the present form of autocratic government now prevailing. And further, provided that those who have been responsible for the horrible massacres and murders during the war are duly decapitated, as an example to their heirs and successors.

With regard to the policy which ought to be pursued by us in the event of democratic government being enforced in present enemy countries, we would say that we should make no change from the course of action or policy herein recommended. The policy suggested is based on sound economic principles and not on any purely anti-German sentiment. If in course of time Great Britain and her Allies were satisfied, after a trial period of five years, that our present enemies had developed a more rational and democratic frame of mind, all that they require to do is to abolish the war sur-tax payable on import duties. In which event our present enemies would then be in as favourable a position as present neutrals.

At the conclusion of the period of the five years referred to above, it should be found that the war sur-tax of 15 per cent. on all German, Austrian, Bulgarian and Turkish exports into Allied countries, the indemnity to be imposed and the terms of its liquidation, together with the redistribution

of enemy territory, would be, in themselves, sufficient to destroy any aggressive policy which they may contemplate within that period or later.

ON NEUTRAL TRADE

With regard to the measures which are to be framed and come into operation for the period of the commercial, industrial, agricultural and maritime reconstruction of the Allied countries after the war, Article I of the Paris Economic Resolutions declares the common determination of the Allied Governments to ensure the re-establishment of the countries suffering from acts of destruction, spoliation and unjust requisition; and, as a corollary of this, they decide to join in devising means to secure the restoration to those countries, as a prior claim, of their raw materials, industrial and agricultural plant, stock and mercantile fleet, or to assist them to re-equip themselves in these respects.

In the preceding pages we have dealt with the outlook and the position in so far as Germany is concerned, but we now have to deal with the interests of neutrals and the position to be

occupied by them during the reconstruction period.

The first impression we form is that the Allied and Dominion Governments cannot afford to adopt a preferential policy between themselves as against neutrals, for the adoption of such a policy would only drive neutral trade into the hands of Germany, and *vice versâ*, and probably would create defensive and offensive economic treaties or alliances against ourselves.

As a sound economic proposition, there is a good deal to be said in favour of this argument, but we have to remember that the industrial plants in the Allied countries have been equipped and are now utilised for the purpose of manufacturing munitions of war, so urgently required in the firing-line.

When normal conditions return a considerable period of time will elapse before these plants can be changed over and made available for ordinary commercial enterprise, and for the different industrial organisations to get into proper working order again in the solicitation of international trade.

Not only that, but it should be remembered that some of France's most prosperous industries, notably the wool industry of the north and the metallurgical in the east, are still in the hands of the enemy, and will no doubt be destroyed before the Germans evacuate the territory occupied by

them. Are we then to permit Germany, and rich and powerful neutrals, to deal a mortal blow at the national industries of France by dumping processes before giving her time to rehabilitate and re-establish her industries, and recover her financial equipoise?

The house of France is in ruins, so that with her the reconstruction period after the war has a more literal significance. The volume of French exports has fallen during the war in a most striking manner, due, of course, to the mobilisation of her national industries for the manufacture of war material, and also to the great difficulties which France has encountered owing to the want of adequate shipping facilities. But where would Great Britain and her other Allies have been to-day as regards the war but for this early decision of France to sacrifice her export trade and mobilise her man power in favour of winning the war? Do we and our Allies, then, not owe France and her brave men a deep debt of gratitude? Are we to leave them to fight Germany and powerful neutrals without adequate preparation and assistance?

Neutral countries have regarded it as being more profitable to themselves, instead of participating in the conflict, to supply such materials as we and our Allies require, not at fair prices, but at prices which may be regarded as being extraordinarily lucrative, and have by this means con-

siderably increased the external debts of the Allied Governments. During the progress of the war they have also been organising their industrial plants and adopting other economic measures for the capture of as much of the international trade of the belligerent countries as they can as soon as the war concludes.

If we take these considerations into account, and also the fact, already referred to in the previous chapter, that the economic policy which we are now committed to by the adoption of the Paris Economic Resolutions, involves a considerable change and dislocation in the character of the import and export trade formerly transacted by the Allies, which will be obvious to those who study such matters, inasmuch as the source and origination of our previous trade will for the most part be completely altered, it will necessarily take some considerable time before our respective merchants and manufacturers can settle down to a normal trading policy.

In this circumstance it would seem to be just, fair and equitable that the Allied Governments should for a period of five years, dating from the conclusion of the peace treaty, concede to each other a preference of $33\frac{1}{3}$ per cent. of the duties payable as set forth in their respective tariff schedules; it being definitely understood between the Allied Governments and neutrals that the

preference of $33\frac{1}{3}$ per cent. which they may deem to be advisable to concede to the industries of their respective countries, shall be positively and definitely determined at the end of the five years.

In the event of any neutral country, during the reconstruction period of five years suggested, adopting counter or retaliatory measures against the Allied Governments, then it should be clearly intimated to such neutral power that the war sur-tax of 15 per cent. shall be placed on all the imports of manufactures from their country for so long as the counter or retaliatory measures may exist.

Neutrals should remember that the industries of Great Britain and her Allies are for the period of the war organised and developed for warlike purposes; whereas the industries and financial power of neutral countries have been organised and developed during the war for peaceful purposes. Great Britain and her Allies, therefore, cannot allow them, particularly in view of the enormous war costs they are now incurring, to procure or derive any advantage over their respective national industries and labour in view of the circumstances mentioned.

In an article cabled from New York by the financial correspondent of the *Daily Telegraph* recently, he pointed out that the recommendations

of the London Chamber of Commerce for a system of graduated preferential tariffs as between Great Britain and her Allies after the war were being studied with the keenest interest in America, and were the subject of criticism almost everywhere. Also the probability that the system of free trade —i.e. *Laissez faire*, *Laissez passer*—would be abandoned was causing much concern in the press and leading trade circles, and that the editorial comment on the proposed post-war trade plans of the Allies was very severe. There is even a hint that reprisals will be adopted by the United States in the event of such a development.

Now the only sensible course to pursue in view of our economic position, particulars of which we have already mentioned, is to pursue our own interests in our own way irrespective of any threats that may be directed against ourselves, or our Allies, by neutrals.

The enormous costs of the war will have to be liquidated, but it should be the function of Government to lighten the pressure of taxation which it will be necessary to impose upon our people for this purpose for years to come. If this policy is not pursued by our Government there is the obvious danger that individuals and families, particularly those possessing capital, will emigrate in order to avoid the high direct taxation that will necessarily prevail. If this danger is to be avoided it will be

necessary to create working conditions providing for the security of income and employment.

We have, therefore, our own national interests to safeguard after the war is concluded, and, for the reasons stated, we cannot afford to have these sacrificed in favour of any power, neutral or otherwise, whose financial and other material resources have not been impaired to any great extent as a consequence of the war; and all comparisons should be made with the pre-war standard.

It should be the duty of our statesmen to point out to those whom it may concern the reasonableness of this attitude, and to adhere to the policy to which we are committed. A "friend in need is a friend indeed," and it is our manifest duty to be loyal to those who have stood by us and made every possible sacrifice in the cause of liberty, freedom and justice. It is only by pursuing such a policy that we can hope to continue to retain the goodwill and confidence of our Allies.

CHAPTER III

THE INFLATION AND MANIPULATION OF PRICES, AND THE CAUSE

WILL LONDON BE A FREE MARKET FOR GOLD AFTER THE WAR?

As we have previously indicated, the development of the Foreign Exchanges between nations are in many cases more or less modified in the course of a generation. The Exchange will have a tendency to fluctuate in favour of those nations whose trading is conducted on the most intelligent lines. In this circumstance, and in view of the conditions which prevail, it is essential that we should study the question as to whether London will be able to continue a free gold market after the war.

If the Bill of Exchange on London is to remain as in pre-war days, the international currency of the world, it is necessary for the country to maintain its ability to supply gold whenever it is demanded.

In pre-war days it is well known that the majority of the foreign banks always held amongst

their liquid assets substantial holdings of Bills on London. These banks preferred to do this because they could always rely upon Great Britain paying her debts in gold, and in view of this confidence they came to regard their Bills of Exchange on London as representing gold. These Bills were preferred to gold because they could be handled with much greater facility; they were preferred to gold because they could be transferred with greater rapidity, with greater certainty, and with infinitely less risk than would be involved in the shipping of gold.

In other words, the Bills of Exchange on London were regarded as being the most efficient and wholly satisfactory instruments that could be devised by which debts between the various countries could be liquidated, and it was chiefly owing to this fact that the Rate of Exchange on London came to be regarded, par excellence, the International Rate of Exchange.

The transactions represented by Bills of Exchange cover the import and export of goods, financial and commercial operations of every kind, stocks, debentures, and remittances of money, and many other items, and are naturally of a very comprehensive and substantial character; and in view of the adverse balance of trade, *i. e.* excess of imports over exports, which is rising up against this country, it is necessary that our manufacturers

and merchants should carefully study the fluctuations of the Bill of Exchange and the fluctuations in the Rate of Exchange, that excellent barometer which indicates the strength of the country in international transactions. The whole matter has a very deep bearing upon our future gold position.

Mr. Oswald Toynbee Falk has a very interesting essay on this subject in the *Nineteenth Century* for July 1916, based upon a quotation taken from a speech made by Sir Edward Holden, one of our most eminent bankers, at the Annual General Meeting of the London, City & Midland Bank, January 28, 1916, which, in our view, is very important. The quotation is as follows—

"London, as I have before explained, has maintained, and will continue to maintain, the position of being the financial centre of the whole world, but it can only retain that position by being able to supply gold when gold is demanded. The Bank of England has at the present time about 50 millions sterling of gold. The Government has 28½ millions, and the Joint Stock Banks have a further large sum, while I believe there is yet in hoarding a fair amount, and we are fortunate in having a continuous flow of gold from South Africa. If, on the conclusion of this war, we are still a free market for gold, we shall have scored a financial triumph as important to the country as a great victory in arms."

It will be noted, however, that Sir Edward Holden asserts that "If, on the conclusion of this war, we are still a free market for gold, we shall have scored a financial triumph." We agree with Sir Edward Holden that it would be a most admirable performance if it could be achieved, but even then we doubt very much if the credit would be entirely due to our financial methods more than to our sea power. In our view, British financial credit is based largely, if not entirely, upon British sea power credit, and if the latter were to be destroyed it would be futile to discuss whether London would be a free market for gold after the war.

Similarly, the comparative merits or demerits of British and German methods of finance are based very much upon the same principle, for in order to obtain a true result, and appreciate the full significance of the strength of our sea power, our consequent ability to export and import in war time must be brought into perspective; and this aspect of the question is generally overlooked in discussions of this sort.

In order to prove the truth of this proposition we need only refer to that part of Sir Edward Holden's speech which states "we are fortunate in having a continuous flow of gold from South Africa." It is quite clear from this that British sea power alone continues to ensure it, and if this

is borne in mind it will perhaps prevent the raising of false issues.

Notwithstanding the fact, however, that British sea power gives us a predominant advantage in the present world's conflict, there will be many financial difficulties we shall have to face after the war in view of the very large adverse balance of trade which now exists and which has at present to be offset mainly by the export of gold and our available foreign securities. But this policy, obviously, cannot be continued indefinitely.

The situation which now exists may seriously affect our position as a free gold market after the war, inasmuch as our ability to correct any adverse balance of trade will, in future, mainly depend upon our ability to export manufactured articles of utility in large quantities at keen competitive prices. We agree with Mr. Falk that it would be manifestly wrong to postpone the consideration of the question until the war is over, inasmuch as we believe it to be one of the considerations which arise out of the Paris Economic Resolutions; it should, therefore, be considered at once.

It may be our present business to win the war, but what possible advantage would it be to us to win a victory in the military sense, if, by the maintenance of *Laissez faire*, we proceed to lose the fruits of victory in the severe international industrial competition which will certainly ensue

after the victory, which we hope for, is obtained; or, if we proceed by the same methods to lose the victory by exporting the nation's capital abroad to pay for manufactures, food and food products, which could, with a little energy, for the most part be produced in the United Kingdom from existing resources even during the war.

It has been said that a great crisis invariably arises when least expected; but if the mind of the public is concentrated upon the dangers which create a crisis they may very often be avoided. If, therefore, we accept this as a practical proposition it seems to us to be desirable that we should at the present time, if only for the purpose of protecting the homes and businesses of those men who have gone to the front, immediately adopt such precautionary measures as may be essential and necessary to safeguard our future industrial prosperity.

Mr. Falk assumes that the monetary units or their paper equivalents, in Germany, Russia, France, and Great Britain, have depreciated in terms of gold and also in terms of commodities. We think he is correct in his first proposition but not in the second, inasmuch as the rise in prices is not entirely due to the depreciation of internal currency in terms of gold, but to the freer circulation of credit—artificial, we admit—and to the monopolistic trading conditions which exist during war time.

In support of this view it will be found that at the conclusion of three years after peace is declared the price of manufactured utilities and commodities will be on a lower basis than those which existed in 1914 before war was declared, *i. e.* whereas the purchasing value of the sovereign, or its paper equivalent, is now claimed to be equal to the value of twelve shillings as compared with pre-war values, in three to five years after the declaration of peace we firmly believe that the value of the sovereign, or its paper equivalent, will be worth about twenty-eight shillings, always assuming, of course, that we do not go bankrupt and that the paper currency continues to exist.

The freer circulation of credit to which we refer and which is represented by the inflated paper currency is reflected in the great expansion of banking credits, *i. e.* deposits, which now exist, as will be seen in the following comparative table of the London, City & Midland Bank—

Deposits,	June 1914 . . .	£ 95,027,000
„	December 1914 . .	124,732,000
„	June 1915 . . .	142,388,000
„	December 1915 . .	147,750,000
„	June 1915 . . .	157,539,256

From the foregoing remarks it will be clear that British bankers will require to be exceedingly careful with their credits so soon as the present high level of artificial prices and wages begin their course of liquidation, as the liquidation will imme-

diately begin to make its influence felt in the volume of deposits held.

The present great rise in prices, in our view, is not entirely due to the great inflation of the circulating media, but is largely, if not mainly, attributable to the monopolistic conditions which prevail and the excellent market which the inflation of the circulating media creates for manipulation.

The National System of Economics based on freedom of trade is designed for defensive and offensive purposes either in the arts of peace or war; and both are inseparable. We organise our national forces in peace for war; and as a corollary of this we should organise in war for the development of the arts of peace; and the truth of this proposition has been effectively demonstrated during the present war. When a nation is in a state of war, particularly on the scale in which it is involved at present, there can be no freedom, in the sense in which it is understood in times of peace, to any individual or corporate body. All labour power, financial and other material resources, must be controlled, developed, and guided along lines that will ensure victory.

What the Government should do is to introduce legislation to the effect that no firm or other corporate body [1] shall be allowed to pay larger divi-

[1] For the general purpose of the scheme an individual who trades for profit should be classified as a firm.

dends upon any form of share capital than it paid for the financial year 1913–14, with the exception that any firm or corporate body which did not pay ten per cent. in dividends upon its ordinary share capital to its shareholders in pre-war days, should be allowed to distribute dividends not greater than ten per cent. during the term of the war period. And that all surplus profits available for further dividends beyond the amounts specified and allowable by law, subject to the usual or customary provision for reserves, should be made payable to the Treasury.

If such a measure as we propose was to receive the assent of Parliament, we do not think that the present high level of prices would have been possible; it is by far the most effective measure that could be employed for checking the rising tendency or manipulation of prices; and the proposition is suported by Adam Smith's dictum that "Defence is of more importance than opulence."

If the foregoing regulation could be made law by the Government it would have the following effect—

(1) It would check the rising tendency or manipulation of prices in a market sensitive to manipulation or panic.

(2) It would check the demand by organised labour for increases of wages, and in many cases it would be possible for reductions to be made.

(3) It would increase the sums of money payable to the Treasury under the heading of Excess Profits by at least fifty per cent.; or, in the alternative,

(4) Drive public savings and other available capital into Government War Loans and Treasury Bills.

(5) It would increase the capital values of existing Government, Municipal, Colonial and other prior lien securities by reason of the fact that

(6) It would decrease the rates of interest payable on Government War Loans and other Treasury Securities.

(7) And it would avoid the disturbing market conditions which will be inevitable at the conclusion of peace, in consequence of the present high level of prices and wages beginning their course of liquidation.

Laissez faire in a state of war creates more effective monopolies than any system that could be devised under National Economics. In confirmation of this proposition we need only direct attention to the high profits made by the shipowners, coal-owners, and the merchants, who are allowed perfect freedom to demand what they please. On the other hand, compare the present rates of railway transportation and the cost of producing shells, both of which are regulated by the state, and what do we find? In the former, any

higher cost of transportation is merely represented by the higher level of wages demanded by labour, but no extra war profits are secured by the railway companies; and the cost of producing shells is lower than pre-war rates, due, no doubt, to the larger volume produced; but to whatever cause it may be attributed, the benefit is secured by the State.

Our Cabinet Ministers have entirely thrown away the advantage which we ought to have derived from our control of British sea-power credit. They have allowed prices to rise to an abnormal level, and, as a corollary, rates of interest on loans to rise, resulting in a depreciation of all pre-war investment securities, with a corresponding loss of credit in neutral countries.

Ministers may claim, of course, that they are getting the excess profit and income tax of eighty per cent. on surplus profits, but, like the ostrich, they are burying their heads in the sand. There will be no excess profits to obtain after the war, and the whole burden will suddenly have to be borne by the direct tax. Meanwhile, in pursuing their present course of action Ministers are throwing away the credit values represented by our foreign investments which would, and should, partly bear the future burden.

The present monopolistic conditions which exist have made every one greedy. Labour has become

envious of the capitalist and has demanded a share of the plunder through the medium of high wages. The ship-owners, coal-owners, merchants, etc., have all increased their prices still further and passed the extra expenditure involved on to the public. In other words, we have got into what is commonly known as the "vicious circle." In view of the foregoing, therefore, it would not be correct to assume that the monetary unit has depreciated in terms of commodities in consequence of the expansion of the circulating media; but that it is mainly due to the monopolistic conditions which are created by the maintenance of *Laissez faire* in a state of war, whilst holding the advantage of sea-power credit.

The placing of limitations on prices will not stop the inflation of prices as effectively as the method we have just indicated. There is a great difference between the Government governing by Laws and Regulations, and the Government governing by interference with trade. In proceeding by the latter method they tend to create a panic in the market of the commodity which it is proposed to control, inasmuch as they imply that there is a shortage in the commodity, thereby causing a rise in prices in neutral markets, as, for instance, in the case of sugar and cheese, the supply of which commodities they have already attempted to control, with results contrary to those that were

anticipated; although available supplies have considerably augmented in this country.

We strongly believe in the voluntary effort, *i. e.* individual freedom of trade, but only on the basis that the State shall pass Laws and Regulations to the effect that no individual or corporate body shall, whilst the nation is in a state of war, be allowed to declare larger dividends than those we have suggested. In other words, the secret of the problem lies in placing a definite limit on speculative values.

If those who support the doctrine of *Laissez faire* refuse to admit this proposition, then they are in practice greater protectionists than those who advocate National Economics in times of peace. Inasmuch as by allowing freedom to individuals and corporate bodies to manipulate prices in the monopolistic conditions which must necessarily exist whilst the nation is in a state of war, they permit of one of the greatest crimes imaginable against those members of the State whose persons are conscripted for military and naval services, and against those other persons who are unable to defend themselves against the manipulation.

When, however, we come to consider the value of the circulating media or monetary unit in international transactions a different state of affairs exists. Most of the Neutral Exchanges are against

us, and were it not for the very large volume of foreign securities and gold reserves which we hold, and which we are sending abroad to pay for food and other necessary war materials, not only for ourselves but for our Allies, the Exchange value of the sovereign would certainly have depreciated to a much greater extent than it has.

We have also had to create very large credits in America for the purpose of paying for our necessary requirements; but after the war is concluded can we continue to pursue this method of correcting any adverse balance of trade or in redeeming the external debt and paying the interest charges? On the other hand, by what means can we hope to continue to maintain the value of the sovereign, or its paper equivalent, in international transactions? We can only achieve what is desired by the entire nation concentrating upon the production of manufactured utilities and in exporting them in large quantities abroad at the keen competitive prices which will then undoubtedly exist. In other words, we must cultivate and develop the foreign market, and also make effective the Paris Economic Resolutions. But it should be borne in mind that although this development is a necessity from our point of view, it will also be a necessary development on the part of other belligerent nations.

This aspect of the question is foreseen by Mr.

F. A. Vanderlip, President of the National City Bank of New York, who, in an address to the Third National Foreign Trade Convention, 1916, made the following statement—

"When the war is ended we will find all Europe depleted of its gold, staggering under a weight of inflated Bank and Government paper, and under the direct stress to rebuild its stock of gold. The point of attack will be our gold reserve. The methods will be every means known to trade and commerce by which merchandise, securities, and credits can be exchanged for gold. The laws of political economy will be on the side of the attack. A plethora of gold, such as we will have, always means rising prices. We will establish a price basis here which will make us a good market to sell in and a bad market to buy in. We are now advancing our labour costs, and that and every other element that enters into production will, under the influence of this great increase in our gold reserves, tend toward high market values."

All of which is excellent teaching, and confirms the point of view we seek to establish.

The great difficulty which has to be overcome, however, before we can arrive at the position foreshadowed by Mr. Vanderlip is the present high level of wages and prices which prevail, and which has been brought about by the circumstances already indicated.

This peculiar position is, however, one that is present to all the belligerent nations and neutrals to a greater or lesser degree, the difference being that powerful neutrals occupy an advantageous position inasmuch as their resources are organised for peaceful purposes, whereas the belligerent powers will have to put their industrial plants through a process of re-organisation on the declaration of peace, to enable them to resume their former position in the international markets of the world. This, of course, we have already foreshadowed and discussed.

Mr. Falk, in his admirable essay, however, raises a very serious point in this connection which will require very careful consideration. He points out that "in the first place falling prices discourage enterprise, and that no manufacturer will make goods for a falling market unless he can see his way to compensate himself by a reduction of costs, and this is just what he cannot do in nine cases out of ten because—

(1) He generally buys before he sells.
(2) Wages rarely fall as quickly as prices.
(3) The initial stages of a period of falling prices usually synchronise with a restriction of credit and high rates of interest for loans."

"Trade depression and unemployment will not be a desirable state of affairs when the country

will really need to produce as much as it possibly can, and when it will be facing the problem of employing a disbanded army. The price demanded for the maintenance of a free gold market will be no light one, and the greater the degree of inflation when peace comes, the greater will be the difficulties. Suspension would be a great disaster, but it may ultimately prove to be the smaller of two alternative evils; in fact, we may even find that we are left with no alternative at all."

From the foregoing it will be seen that if the country is to be placed in the position of being able to compete successfully in the international markets of the world for such business as may be offered, those who control organised labour should be made to clearly understand their duties and responsibilities, as otherwise there is a danger that London will have to suspend specie payments for a short period of time involving the country in a corresponding loss of credit. It is to be hoped that the leaders of organised labour may be brought to realise in time that it would not do to prejudice the Bill of Exchange on London, an instrument that has come to be regarded as the international currency of the world; and if the war has taught us anything, it is that finance and industry are inseparable: one is a prop for the other.

If the leaders of organised labour and of our great industries would only come together and

discuss a new basis of wages and employment to be brought into operation at the conclusion of the war, under a definite economic system, many of the problems which now seem insurmountable would disappear. But this may be considered by some to be a platitude which has often been discussed during the war by many writers and sympathisers, and that notwithstanding the frequent references that have been made to the subject it still remains more of a general proposition than a particular one.

Anticipating this attitude, we have undertaken the task of examining the problem in the particular in the following essay, and hope that it may serve as a useful basis for discussion, and clear the way for a broad understanding of the difficulties which have to be met by both parties.

CHAPTER IV

ON THE CO-OPERATION OF LABOUR IN PRODUCTION AND POLITICS

FREDERICK NAUMANN, in his book on Central Europe, asserts that "it is only in war time that our mood enables us to entertain broadly transforming thoughts of reconstruction," which, judging from history and experience, is unfortunately very largely true; but it may also be very largely due to the fact that the momentum of the economic machine has to be arrested and held in check in favour of military and naval necessities, giving us the opportunity to survey our economic and political activities in perspective, making such corrections or alterations as may be necessary to ensure a smoother and more efficient drift forward to that higher plane of life to which the world, speaking generally, is advancing.

Such an opportunity now presents itself, and it appears to us to be very desirable that we should strengthen the weak links in our economic chain and bonds of Empire, in order that we may resume our industrial activities and general prosperity

with greater vigour, vitality, and general all-round co-operation than we have been accustomed to do hitherto. But it is nevertheless sad to reflect that it requires a war to enable "our mood to entertain broadly transforming thoughts of reconstruction." It is, perhaps, the spirit of self-sacrifice which the opportunity of war provides which forces us all to recognise that we are in reality all of the same flesh and blood and are but human.

The most important consideration arising out of the Paris Economic Resolutions which now remains to be dealt with is the attitude which organised labour will adopt towards them, and the assistance we may hope to receive from it, in making the Resolutions workable and effective.

We think it is now generally recognised that without the co-operation of labour in production and politics all efforts that may be made towards making the Resolutions workable and effective would subsequently prove to be abortive.

As we have remarked on more than one occasion, the war has enabled the vast majority of our people to realise that our pre-war political and economic views were very unsound, and this remark applies equally to the views held by the leaders of the Trade Union movement and their adherents; and, to give them credit, they do in the main recognise the faults and weaknesses of some

of the views which they hold, the most of which have been inherited from Carl Marx.

Notwithstanding the all-round progress that has been made towards a more rational and national mode of thought, it is still necessary to study the various modes of thought, or the theories of the Economic School, which were responsible for the position and views held by organised labour in this country prior to the war, and which many of its adherents are still inclined to support; the shock of war has upset many of the Marxian theories held by organised labour, and consequently there is considerable doubt and confusion of thought on subjects economic within its ranks; but no one should be surprised at this, considering that Carl Marx himself was hopelessly wrong in his first principles and in many of his definitions, even viewed from the standpoint of organised labour.

If, therefore, we can demonstrate certain of the Marxian theories to be wrong in respect to economic science generally, and in a fair and impartial manner, it would, we believe, carry forward still further the movement which we inaugurated six years ago towards securing that closer co-operation so earnestly desired, both in production and politics, as between management, organised labour, and the owners of capital, *i. e.* credit.

As the basis of all human existence is the earning of a living, an examination of the problems con-

fronting us could not be complete which did not attempt to survey the working conditions in which labour operates in production; and also the legitimate aspirations which, as a body, it endeavours to make effective through politics.

Many thoughtful minds are turning their attention to this most interesting of present-day problems. Before the declaration of war a great many people were much concerned at the bitter and intensified feeling which frequently manifested itself in various ways between the forces of labour and those responsible for the management of industry.

It has always occurred to us that a great deal of the misunderstanding has arisen through labour itself confusing management with capital. Even to-day it is frequently stated by leaders of labour that after the war the battle between capital and labour must be renewed with more intensity than hitherto, whereas if the gentlemen who used such expressions would but stop to think they would surely realise that capital is but an instrument of credit; and that as such labour can no more afford to fight it than do without its daily bread. Credit is fluid in character and can in consequence easily transfer itself to other spheres of activity where greater security and harmony prevails.

After the war is over there will be many problems that will arise for solution which labour and

those responsible for the management of industry will have to solve together. And if they are to secure the confidence of capital, *i. e.* credit, a more co-operative feeling, or a willingness to co-operate together, must be manifested. From every point of view such a policy is desirable in order that the future welfare of both, and, *ipso facto*, the industries of the country, may be safeguarded and developed to their utmost efficiency.

Much of the misunderstanding that has arisen in this country has been due to the policy of *Laissez faire* and *Laissez passer* which dominates our national business policy, and also to an unwillingness on the part of the forces engaged in industry to see the point of view or understand the mode of thought, which govern the actions of either side.

If a proper understanding is to be achieved it would seem desirable that a disposition, or a willingness, should be shown by each side to place itself in the position of the other. If we have no immediate experience of what other men feel we can form no idea of the manner in which they are affected, nor conceive what we ourselves should feel in a like situation. It is only by studying the point of view of others that we come to appreciate the feelings which dominate their everyday life.

The majority of people appreciate only too well the wretched atmosphere in which many of the

labouring classes dwell. But it must not be assumed that they do not sympathise with the situation, or that they are indisposed to assist in any remedial measures that may be conceived to remedy and brighten the existence of such people.

Any apparent want of sympathy which may seem to exist is superficial. Such want of action as may exist is mainly attributable to the conflicts which have frequently manifested themselves hitherto between classes and masses engineered by political demagogues for vote-catching purposes. And the absence of co-operation or co-ordination between the forces of labour and those responsible for the management of industry afford these same politicians a rich field of opportunity for the practice of their arts.

A QUESTION OF MORAL SENTIMENT

To those who give careful thought and study to this most interesting of all problems it is quite apparent that there is in reality no practical difficulty which can bar the way to that co-operation between labour and management which all desire. The whole problem is reduced to one of moral sentiment. The motive which inspires the ma-

jority of the leaders of labour is one of sympathy and charity for their fellow-workers. These men, more than most people, realise to the full the sordid and miserable conditions in which the majority of the workers live. Some may say, of course, that it is largely a question of environment, but granting all this, is it not desirable that we should endeavour to brighten it in some measure, and so help to vitalise the minds of the workpeople to appreciate the advantages of improved environment and the beauties of art and of nature?

If we do not manifest any fellow-feeling for the conditions in which they live, or none that bears any proportion to the morbidness or poverty that surrounds their social life, how can we expect them to hold out the hand of fellowship, or feel that by co-operating with management in industry a brighter outlook or future may be assured? As the position stands to-day both sides have become distrustful of each other, due in a large measure, we believe, to the position just stated. Those gentlemen responsible for the management of Industry, and many others, are often distressed at the passion and violence which prevails in many of the convulsive movements of labour, and the economic loss they cause to the country at large. On the other hand, labour treats them with contempt because of their apparent want of appreciation, or sympathy, with their legitimate aspirations for

better surroundings, better working conditions, and a share of the good things that make life worth living. And who does not sympathise with this point of view that has studied or come in contact with the conditions in which the majority of the workers live? We do not wish it to be understood that all workmen lead a monotonous existence, but a large majority do, and it is the spirit of charity and sympathy which prevails among them as a class which makes them stand together for good or ill. The monotony of performing the same operation day in and day out without variation is bound to create an unsatisfactory mentality on the part of the workman if he lacks the necessary time to devote to recreation or study.

A great many people are unable to appreciate the reason for this close sympathy and close co-operation among the working people, but they should remember that modern political life has come to mean nothing else but a fight between classes and masses. And we are not inclined to attribute this apparent conflict of interest to anything more than the loose character of the economic system which exists with us.

Does *Laissez faire*, *Laissez passer* not imply that we must all look after ourselves and the devil take the hindmost? In the absence of a co-ordinated national system of economics, is it to be wondered at that dissatisfaction of an intensified

nature has prevailed in nearly all phases of our national life? The present system encourages the spirit of jealousy; the moment one section of the community obtains any advantage (and as matters at present stand this can only be achieved in the political sense), all other sections become dissatisfied and embittered because they do not obtain equal or corresponding advantages. Nor can any one reasonably object to this attitude, for does it not mean that with *Laissez faire*, *Laissez passer* predominating in our national life, whatever advantage one section of the community may obtain, the remainder must pay for it? There is no standardised economic system by which all such advantages may be paid for by the common energies of all; and there are many people who instinctively realise this, although they are unable to explain or define the precise reason for it.

In order to appreciate this moral sentiment which prevails we cannot do better than quote Smith on the subject—

"In all such cases that there may be some correspondence of sentiment between the spectator and the person principally concerned, the spectator must, first of all, endeavour, as much as he can, to put himself in the situation of the other, and to bring home to himself every little circumstance of distress which can possibly occur to the sufferer. He must adopt the whole case of his companion

with all the minutest incidents, and strive to render as perfect as possible that imaginary change of situation upon which their sympathy is founded.

"After all this, however, the emotion of the spectator will still be very apt to fall short of the violence of what is felt by the sufferer. Mankind, though naturally sympathetic, never conceive, for what has befallen another, that degree of passion which naturally animates the person principally concerned. That imaginary change of situation, upon which their sympathy is founded, is but momentary. The thought of their own safety, the thought that they themselves are not really the sufferers, continually intrudes itself upon them; and though it does not hinder them from conceiving a passion somewhat analogous to what is felt by the sufferer, hinders them from conceiving anything that approaches to the same degree of violence. The person principally concerned is sensible of this, and at the same time passionately desires a more complete sympathy.

"What they feel will, indeed, always be, in some respects, different from what he feels, and compassion can never be exactly the same with original sorrow; because the secret consciousness that the change of situations from which the sympathetic sentiment arises is but imaginary, not only lowers it in degree, but, in some measure, varies it in kind, and gives it quite a different modification. These two sentiments, however, may, it is evident, have such a correspondence with

one another as is sufficient for the harmony of society. Though they will never be unisons they may be concords, and this is all that is wanted or required."[1]

In other words, Smith contends that we must all, in some measure, become acquainted with the philosophy of vision before we can be thoroughly convinced of how little distant objects, sympathies, or imagination appear to the mind. And that it is only by transporting ourselves, if not in fact, at least in fancy, to a different station, that we can form any kind of judgment of the problems we have to solve.

And it is this philosophy of vision that we must endeavour to establish between labour and management and other wage-earning classes if we are ever to solve the question of the co-operation of labour with those responsible for the management of industry. And this observation applies equally as much to the one as to the other.

On the other hand, it is necessary to establish a just balance of proportion. There seems to be a disposition on the part of labour to desire that the more fortunate in life should not only dampen their pleasures, but should not own or possess any wealth beyond a certain limited amount.

It would be absurd to expect that the more

[1] Adam Smith, *Theory of Moral Sentiments*, Book I, pp. 31, 32, 33.

fortunate in life should continuously manifest sympathy for people they have not seen or never hear of. As Smith has truly said, take the whole earth at an average, for one man who suffers pain or misery you will find twenty in prosperity, or at least in tolerable circumstances. No reason, surely, can therefore be assigned why we should rather weep with the one than rejoice with the twenty. Human existence would be intolerable were there no cheerful characters about. Whatever interest the more fortunately placed may take in the welfare of the weaker members of society seems to us should follow the principles of equity and justice, and as soon as those principles are established the law of natural liberty should prevail in so far as action, disposition, character, sympathies and material welfare are concerned.

"There are, besides, many other natural principles which all tend to confirm the same salutary doctrines. If we consider the general rules by which external prosperity and adversity are commonly distributed in this life, we shall find that, notwithstanding the disorder in which all things appear to be in this world, yet even here every virtue naturally meets with its proper reward, with the recompense which is most fit to encourage and promote it; and this is so surely, that it requires a very extraordinary concurrence of circumstances entirely to disappoint it.

"What is the reward most proper for encouraging industry, prudence and circumspection? Success in every sort of business. And is it possible that in the whole of life their virtues should fail of attaining it? Wealth and external honours are their proper recompense, and the recompense which they seldom fail of acquiring. What reward is the most proper for promoting the practice of truth, justice and humanity? The confidence, the esteem and love of those we live with. Humanity does not desire to be great, but to be beloved. It is not in being rich that truth and justice would rejoice, but in being trusted and believed, recompenses which those virtues must almost always acquire." [1]

Smith further believed that those actions which aimed at the happiness of a great community, as they demonstrated a more enlarged benevolence than those which aimed only at that of a similar system, so were they, likewise, proportionately the more virtuous. And that in directing all our actions to promote the greatest possible good, in submitting all inferior affections to the desire of the general happiness of mankind, in regarding oneself but as one of the many, whose prosperity was to be pursued no further than it was consistent with, or conducive to, that of the whole, consisted the perfection of virtue.

[1] Adam Smith, *Theory of Moral Sentiments*, Book I, pp. 342, 343.

It is from this standpoint, we believe, that we can only hope to secure the co-operation and confidence of organised labour in the development of modern industry. Similarly, we believe that organised labour cannot hope to secure the confidence of management and capital so long as it persists in adhering to the Marxian theories on modern machinery and surplus values. Its safest and wisest course, we believe, is to base its claims upon the laws of justice and of equity; and in pursuing this course it is more likely to attract to itself the balance of moral sentiment, commonly known as "public opinion."

ORGANISED LABOUR AND THE MARXIAN THEORIES

The theories propounded by Carl Marx seem to have fascinated organised labour in a most extraordinary manner, but as he has sown the seeds of the economic views at present held by labour it is essential, in developing our present theme, that we should give them consideration.

In consequence of the war many Economic writers have a tendency to write on matters Economic with an anti-German bias, endeavouring to

make sound economic principles conform to anti-German sentiment; it is, of course, difficult to avoid this error in view of the general disposition and mentality of the public at the moment, but it is as certain as anything can be that if we were to allow sentiment to gain the upper hand we should be doing the national interests more harm than good.

If any one will examine the Marxian theories from this point of view they will upon examination find that Marx was not a sound economist, for he clearly allowed his imagination to run riot with his thoughts. He endeavoured to conform sound economic principles to his conception of the relations such as he considered actually existed, or ought to exist, between capital and labour. His first principles are certainly unsound, but some of his secondary points are good.

We are conscious of the evolution which Marx had in mind, and which he endeavoured to give expression to, but like all enthusiasts he went beyond the line which exists between that which is practical and rational, and that which is irrational and impracticable.

In his preface to his best-known work, *Das Kapital*, Marx accuses John Stuart Mill of a fault similar to the one which he, and no doubt all unconsciously, was also guilty of.

On page xxiv he writes as follows—

"The Continental revolution of 1848–9 also had its reaction in England. Men who still claimed some scientific standing and aspired to be something more than mere sophists and sycophants of the ruling classes, tried to harmonise the political economy of capital with the claims, no longer to be ignored, of the proletariat. Hence a shallow syncretism, of which John Stuart Mill is the best representative. It is a declaration of bankruptcy by bourgeois economy."

Marx was evidently of the opinion that the science of Political Economy in so far as it had any influence on national and material welfare was a bankrupt science, with which point of view we, and many others, no doubt, heartily agree; his cardinal mistake, however, was in attempting to scrap all the material progress that had been effected under Political Economy, and in attempting to establish a new economic school with ideas, not only unsound in theory, but unsound in practice.

Marx evidently failed to realise that the general basic principles and laws of National Economy, particularly those propounded by Smith, hold good for all time; but was he aware that such a system as National Economy existed? Did he perceive and appreciate its full significance? [1]

We do not think that Marx could have given serious consideration to the system of National Economy as an instrument

Every historical period may have laws of its own, but the underlying fundamental principles, we believe, still remain constant. The truth must always be there, but the difficulty hitherto has been to perceive and define it, in a manner that will find general acceptance.

It is, however, open to each historical period to change the character or application of the working conditions based on the basic principles to meet such changes as are brought about by an evolutionary process or by external considerations; and it is in the co-ordination of these, we believe, that man's progress can best be achieved. It certainly will never be accomplished by the destruction of the whole fabric, *i. e.* by revolutionary methods.

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through which he could have effected the objects he had in view ; and it seems strange that throughout the whole of his book *Das Kapital* he should make no reference to the great work of Frederick List on a *National System of Political Economy*, although he was a countryman of his own. List's *National System* was first published in Germany in 1841, and his American translator declares the work was an immediate success. It was also translated into French, and published in Paris, in 1851, by Henry Richelot, a distinguished Economist. Yet Marx and his collaborator refer to works, speeches and pamphlets published as late as 1881 (see p. 814, *Das Kapital*). Karl Marx died in 1883, and List in 1846. The omission is curious, but it may explain the reason, if Marx was of the opinion that "Political Economy was a bankrupt science," why he developed his own peculiar system. But that he should do so in entire ignorance of the principles of National Economy is remarkable.

For instance, methods of production are constantly improving, hence costs of production are continuously decreasing. But the principle of a man using a machine in production, in co-operation with a cutting or grinding instrument, is still the same although the machine and cutters may be improved out of all recognition of the original pattern. And similar analogies may be found in the other sciences. For instance, in the case of banking and banking credits it is generally conceded that these are more elastic than they used to be—greater facilities can now be granted than was possible in the last century—but the underlying principle is still the same and will be for all time: namely, that banking is based on public confidence. Without public confidence no deposit bank could succeed in its business.

As an illustration, take the case of a workman who by abstinence and thrift saves a sum of £25. This workman, no doubt, would deposit this sum with the bank in which he had the most confidence, relying upon the bank to pay him interest upon his deposit. The management in its turn has to lend out the aggregate sums deposited with the bank to certain individuals, firms or organisations, in whom it also has confidence, at specified rates of interest, in order to be in a position to pay interest on the deposits it accepts from its customers.

If, however, the relations between capital and labour are alienated, and if confidence cannot be inspired in the minds of the gentlemen who control these credits, it is impossible for industry to be developed to its maximum capacity, inasmuch as it cannot secure the necessary credits and absolute confidence by which alone it may be developed.

It is to the men who possess the greatest ability and integrity to whom the greatest credits are extended, and it is this natural law—*i. e.* the personal equation—that Carl Marx has entirely overlooked in the consideration which he gave to the development of modern industry.

In order to demonstrate the enormous influence which the personal factor has in modern commercial transactions the following illustrations may be quoted—

At the time of the so-called Money Trust Investigation in New York, Mr. Horace White pointed out how largely the control and operation of great sums of money by bankers and other financial and industrial organisations was merely a question of gaining the confidence of the public with funds to invest and deposit.

The statement made by this gentleman to the Committee of Investigation was as follows—

"I am in favour of a general dissemination of credit. I want to see it made so common that I

or anybody can borrow freely, that I or anybody who wants to build a railroad or a sky-scraper, or develop a copper mine, can sell bonds at a fair rate of interest, instead of paying enormous commissions to a grasping syndicate among impecunious persons or among well-known rascals.

"Mr. Baker and Mr. Morgan and their like are able to extend credit to borrowers because the public has extended credit to them. Millions of people who have saved money deposit it with them or put it in banks, trust companies, and other institutions which they control. They do so because they consider it safe in their hands.

"It is the possession of these tills of wealth, coming from all points of the compass to form a great river, that enables Mr. Baker, Mr. Morgan and their fellows to extend credit. Take away from them this general confidence and you will not need any laws at Washington or at Albany to lessen their power to extend credit to others. If you can confine them to the use of their own money—that is, to such property as they can dispose of in their last wills and testaments—the Money Trust will cease to disturb the imagination of politicians at Washington.

"*In other words, before you can shatter the credit which they are able to extend to others you must shatter that which others extend to them. I was taught in my youth that to earn the confidence of my fellow-men was praiseworthy, and would probably be gainful in the long run. If some persons have obtained more of such confidence, or*

have made better use of it than I have, that is nothing to complain of."

The italics are ours; but the statement is most lucid and precise on what is, after all, a natural economic law. It is a natural tendency which no Marxian theory could ever dispose of.

Another well-known New York banker and financier, Mr. Otto H. Kuhn, of the firm of Messrs. Kuhn, Loeb & Co., of New York, confirms this point of view in an eloquent address which he gave to the American Newspaper Publishers' Association in New York last April. Space prevents us from quoting the address in full, but we give the salient points in the hope that the principles he outlines, and the knowledge he disseminates, may percolate far and wide throughout the general business community, and particularly throughout the ranks of organised labour in this country.

"I claim that the men in charge of our financial affairs are, and to be successful must be, every whit as honourable, as patriotic, as right-thinking, as anxious for the good opinion of their fellow-men as those in other walks of life. In every time of crisis or difficulty in the nation's history, from the War of Independence to the present European War, financiers have given striking proof of their devotion to the public weal, and they may be

depended upon to do so whenever and howsoever called upon.

"One of the reasons why finance so frequently has been the target for popular attacks is that it deals with the tangible expression of wealth, and in the popular mind pre-eminently personifies wealth, and is widely looked upon as an easy way to acquire wealth without adequate service. Yet it is a fact that there are very few financial houses of great wealth. All of the very greatest fortunes of the country, and in fact most of the great fortunes, have been made, not in finance, but in trade, industries and inventions.

"An exaggerated view prevails as to the power of finance. It is true there have been men in finance from time to time, though very rarely indeed, who did exercise exceedingly great power, such as, in our generation, the late J. P. Morgan and E. H. Harriman. But the power of these men rested not in their being financiers, but in the compelling force of their unique personalities.

"They were born leaders of men, and they would have been acknowledged leaders and exercised the power of such leadership in whatever walk of life they might have selected as theirs.

"As I have said before, the capacity of the financier is dependent upon the confidence of the financial community and the investing public, just as the capacity of the banks is dependent upon the confidence of the depositing public. Take away confidence and what remains is only that limited

degree of power or influence which mere wealth may give.

"Confidence cannot be compelled; it cannot be bequeathed—or, at most, only to a very limited extent. It is, and always is, bound to be voluntary and personal. I know of no other centre where the label counts for less, where the shine and potency of a great name is more quickly rubbed off if the bearer does not prove his worth, than in the great mart of finance. Mere wealth, indeed, can be bequeathed, but fortunately and rightly the power of mere wealth—to paraphrase a famous dictum—has decreased, is decreasing and ought to be, and will be, further diminished.

"Amongst the powers for which our friends of both political parties have a wholesome respect, one of the most potent is organisation. *Let business then become militant, not to secure special privileges—it does not want any and does not need any—but to secure due regard for its views and its rights and its conceptions as to what measures will serve the best interests of the country, and what measures will harm and jeopardise such interests.*

"Let business men get together through a properly constituted permanent organisation, and, guided by practical knowledge, broad vision and patriotism, agree upon the essentials of legislation affecting affairs, which the situation calls for from time to time.

"Let them pledge themselves to use their legislative influence and their votes to realise such

legislation and to oppose actively what they believe to be harmful law-making.

"*Let them strive, patiently and persistently, to gain the confidence of the people for their methods and their aims. Let them meet false or irresponsible or ignorant assertion with plain and truthful explanation.*

"Let them take their case directly to the people —as the railroads have been doing of late with very encouraging results—and inaugurate a campaign of education in sound economics, sound finance and sound national business principles.

"*Let them realise that, just as the price of liberty is eternal vigilance, so eternal effort in resisting fallacies and in disseminating true and tested doctrine is the price of right law-making in a democracy.*"

The italics are ours. But in the quotations just given are to be found a most eloquent exposition of the principles underlying modern business practice, and had Marx developed his main theme from this standpoint, we believe he would have secured a greater influence for his theories than history is likely to give him.

But Marx would not concede that the basic principles underlying Economic Science applied to the present equally with the past: he specifically denied it. According to his views such abstract laws do not exist, as every historical period has laws of its own; and that as soon as society has

outlived a given period of development, and is passing over from one given stage to another, it begins to be subject also to other laws. With the varying degree of development of productive power, social conditions and the laws governing them vary too.[1]

Now the logical inference to be drawn from this strange hypothesis is this, that if every stage of development has its own law of production it arrives at that stage of evolution on certain basic economic principles. But Marx argues that because we have achieved and made good an evolutionary process in our economic development, social conditions naturally change as well, and consequently we should destroy the basic economic principles on which alone we have arrived at our present destination.

Our view of the position is simply this, that if at each stage of our economic development it is found that social conditions have changed to the disadvantage of any section of the community, it is the function of the State by legislation or other means to correct such inequalities as may exist; but it is impossible to imagine any sane person, because of a lack of proper comprehension in his mentality, recommending that we should turn the economic machine upside down as a short cut to the solution of a problem he does not understand.

[1] *Das Kapital*, pp. xxviii, xxix.

Marx was certainly an egotist and a revolutionist, and his writings confirm the view expressed by Mr. Santayana, late Professor of Philosophy at Harvard, who, in his Book, *Egotism of German Philosophy*, states that "the main road taken by the leading German philosophers and writers was that of egotism and self-assertion; we see Fichte and Hegel taking it; we see the vice of absoluteness and egotism transferred from the individual to the German State; we find Hegel asserting that the State is a moral absolute which has no duties to other States or to mankind in general." We cannot but note this peculiar German characteristic permeating the whole of the writings of Carl Marx, who himself confesses in the preface to his Book, *Das Kapital*, that he "openly avowed himself the pupil of that mighty thinker (Hegel), and even here and there, in the chapter on the theory of value, coquetted with the modes of expression peculiar to him."

At the conclusion of the fifth chapter of his book, page 144, Marx certainly confirms his egotism in the following—

"It is therefore impossible for capital to be produced by circulation, and it is equally impossible for it to originate apart from circulation. It must have its origin both in circulation and yet not in circulation.

"We have, therefore, got a double result.

"The conversion of money into capital has to be explained on the basis of the laws that regulate the exchange of commodities, in such a way that the starting-point is the exchange of equivalents. Our friend, Moneybags, who as yet is only an embryo capitalist, must buy his commodities at their value, must sell them at their value, and yet at the end of the process must withdraw more value from circulation than he threw into it at starting. His development into a full-grown capitalist must take place, both within the sphere of circulation and without it. These are the conditions of the problem, *Hic Rhodus, hic salta!*"

Marx, it will be noticed, by his so-called dialectic process evolves an assumed person whom he brings out in his discussions by the name of Moneybags (we presume it is another name for Capitalist), but the definite assertions he makes, such as: "Must buy," "Must sell," "Must take," leave the reader no room for argument. *Voilà!* there it is, says Marx.

Before we can consider the question of exchanging commodities on the basis of the services contained in them as equivalents, we have first of all to establish a standard wage throughout the world, and all the coloured races must be included in that proposition. But even if this came to pass we could not even then guarantee that commodities could be exchanged on the basis of equal service, for enterprise and personal ability would almost

certainly turn the advantage of the exchange in favour of the person or persons who possessed these qualities in the highest degree.

The merchant, or, as Marx prefers to call him, Mr. Moneybags, is entitled, particularly under the policy of *Laissez faire*, *Laissez passer*, to purchase in the cheapest market such commodities as he may choose, and even to finance such transactions for the purpose of exchanging or selling them, in the dearest market.

Marx is more idealistic than he is practical; we might just as well argue that we have no right to work at all, and that every man has a right to a bottle of champagne for lunch. It is ideal, but shall we ever attain it? In our view idealistic theories can only be considered so long as they can be made to conform to sound practice and experience, but so soon as they go beyond this bound they become utopian.

The greatest mistake that Marx has made throughout his work is in confusing capital or money with credit and credit values; and in asserting that his protégé, Mr. Moneybags, must always make money out of his buying and selling in the market-place. What about the losses? For as many Moneybags who make money within the so-called sphere of circulation and without it, there are as many who lose it. In the game of enterprise or speculation it is the man who makes

the fewest mistakes that makes the most money. There are always two ways of making money—one is to keep what you have got and the other is to earn it in legitimate enterprise.

It would not be unfair to Marx to consider him a deductive Economist, considering that on his own confession he was a follower of that mighty thinker Hegel. Mr. Santayana ably conceives the average German, "Meditating on his own mental machinery, seeking its imperfections and limitations, and the self-invoker become very humble and be reverently impressed by the immense mystery that is beyond his ken. Or believing that there was no appeal against himself and no world of which he need take cognisance except that of his own creating, he might become vain, egotistical, and self-assertive." "The German thinker has taken both paths at different times, and nothing is more remarkable in German history than the alternations of these moods."

Notwithstanding this aspect of the question, however, we must continue to give a little more consideration to the theories advanced by Marx. In the chapter on the buying and selling of labour-power, Marx advances a very interesting point, which seems to be the kernel of his arguments. It requires attention, for it has been soaked into the mentality of organised labour throughout the world, and has become an obsession with it. In

the absence of a more accurate interpretation it clings to this straw in a most religious manner—

"But in order that our owner of money may be able to find labour-power offered for sale as a commodity, various conditions must first be fulfilled. The exchange of commodities of itself implies no other relations of dependence than those which result from its own nature. On this assumption, labour-power can appear upon the market as a commodity, only if, and so far as, its possessor, the individual whose labour-power it is, offers it for sale, or sells it, as a commodity. In order that he may be able to do this, he must have it at his disposal, must be the untrammelled owner of his capacity for labour, *i. e.* of his person. He and the owner of money meet in the market, and deal with each other as on the basis of equal rights, with this difference alone, that one is buyer, the other seller; both, therefore, equal in the eyes of the law. The continuance of this relation demands that the owner of the labour-power should sell it only for a definite period, for if he were able to sell it rump and stump, once for all, he would be selling himself, converting himself from a free man into a slave, from an owner of a commodity into a commodity. He must constantly look upon his labour-power as his own property, his own commodity, and this he can only do by placing it at the disposal of the buyer temporarily, for a definite period of time. By this means alone can he avoid renouncing his rights of ownership over it.

The second essential condition to the owner of

money finding labour-power in the market as a commodity is this: that the labourer, instead of being in the position to sell commodities in which his labour is incorporated, must be obliged to offer for sale as a commodity that very labour-power, which exists only in his living self.

"In order that a man may be able to sell commodities other than labour-power, he must of course have the means of production, as raw material, implements, etc. No boots can be made without leather. He requires also the means of subsistence. Nobody—not even 'a musician of the future'—can live upon future products, or upon use-values in an unfinished state; and ever since the first moment of his appearance on the world's stage, man always has been, and must still be, a consumer, both before and while he is producing. In a society where all products assume the form of commodities, these commodities must be sold after they have been produced; it is only after their sale that they can serve in satisfying the requirements of their producer. The time necessary for their sale is superadded to that necessary for their production.

"For the conversion of his money into capital, therefore, the owner of money must meet in the market with the free labourer, free in the double sense, that as a free man he can dispose of his labour-power as his own commodity, and that, on the other hand, he has no other commodity for sale, is short of everything necessary for the realisation of his labour-power.

"The question why this free labourer confronts him in the market, has no interest for the owner of money, who regards the labour market as a branch of the general market for commodities. And for the present it interests us just as little. We cling to the fact theoretically, as he does practically. One thing, however, is clear—nature does not produce on the one side owners of money or commodities, and on the other men possessing nothing but their own labour-power. This relation has no natural basis, neither is its social basis one that is common to all historical periods. It is clearly the result of a past historical development, the product of many economical revolutions, of the extinction of a whole series of older forms of social production." [1]

It is quite clear from the foregoing that Marx is of the opinion that no one has any right to save and possess capital. He comes into the world and finds that there has been some thrifty persons in the world before him and considers it very unfair that these should have had any advantage over him, notwithstanding the fact that his own parents might not have been as thrifty as they ought to have been. He asserts, and no one can doubt the emphasis he lays upon it, "that one thing is quite clear—nature does not produce on the one side owners of money or commodities, and

[1] *Das Kapital*, pp. 146–47.

on the other men possessing nothing but their own labour-power. This relation has no natural basis, neither is its social basis one that is common to all historical periods."

The only deduction we can form from the foregoing is this, that every child that is born into the world has a right to demand, should he be not satisfied with his lot, a general redistribution of the wealth of the world; but the only point that Marx is not quite clear upon is the age at which the newborn can, or ought to be allowed to, demand the general redistribution.

If we were to follow the Marxian theories to their logical conclusion we have to assume that no one has any right to indulge in abstinence or thrift of any kind. He would like us all to become improvident and spend all we earn regardless of the future or the welfare of our children. No person, according to Marx, should be allowed to save £25, or more if he can, because by so doing he becomes a capitalist. But is not every worker who gains experience and knowledge in production a capitalist, and does the history of trade unionism not prove it? In the engineering profession skilled machine operators receive, according to the district in which they are employed, a recognised minimum wage of thirty-five shillings per week, and according as they may be employed on day or piece work the conditions are such that if they

show adaptability and skill they can earn more by way of bonus. The workman's experience and knowledge, or, as Marx calls it, his labour-power, is therefore his personal capital, inasmuch as the salary he draws, and his bonus, is the dividend he earns upon the results of his productive work. And the price he has been able to command in recent years has been on an increasing scale.

As we have stated on a previous occasion, it is in industry that man now thrives, and the greater the skill with which he can exercise his hands and brain, the greater is the value of his services, not only to himself, but to his employer and the State. Personal service is the greatest asset, provided it is efficient, which any individual can possess; it is his capital, and the degree of comfort and pleasure to be derived therefrom, and the remuneration, depends entirely upon his capacity and the opportunities he may have for exercising it. Enterprise and opportunity will always be found to prevail in the operations of labour if they are sought for, just as much, and as many, as there is to be found by those engaged in the direction of it. This is a natural law, and we believe it will never change.

We believe in the view that "the struggle of existence is the life of nature, the basis of all healthy development, and that all existing things show themselves to be the result of contesting forces. That in the life of man the struggle is

not merely the destructive but the life-giving principle." "To supplant or be supplanted is the essence of life"—and that this continuous struggle is the essence of enterprise. But notwithstanding this view, we are of the opinion that we have also our moral responsibilities to fulfil to those of our fellow-men who, from sheer mental and physical incapacity, are unable to adequately perform their daily task in industrial development; and the safeguards we should adopt for their benefit we shall consider later.

CHAPTER V

MODERN MACHINERY AND THE MARXIAN THEORIES ON THE SUBJECT

We think we have shown that Marx was wrong in assuming that capital and labour were two distinct classes whose interests were naturally antagonistic one to the other. He argued from wrong premises, inasmuch as every labourer is a capitalist; he offers his experience and knowledge for a price, and every person who controls or directs capital, *i. e.* credit, is a labourer by reason of the fact that he has to secure a result, or a profit, on the capital or credit for which he is, or has made himself, responsible.

The responsibility of the manager who controls or directs capital into profitable employment is very much greater than that assumed by the manual labourer. If by any mistake of judgment the manager should fail to produce results in the conduct of his operations, whether it be in ordinary industrial enterprise, in the financing of it, or in giving credit, he will lose the confidence of those

who supply him with the requisite capital—*i. e.* credit; and he can only with difficulty regain it. Marx does not consider such unfortunate individuals, and there are many. But it is obvious that he would have been in difficulties had he done so.

Then, again, consider the case of a factory that is fully equipped for producing a bicycle at a cost of, say, £4. A considerable amount of capital and enterprise has been displayed in creating the business and organisation. No sooner has it got going when an enterprising machine-tool maker produces machines which will cut or reduce the productive cost of the bicycle by, say, twenty per cent. It is obvious that if the firm has to continue its existence the old plant must be scrapped at the earliest possible moment. But what about the original cost of the machine tools, jigs and fixtures which must be scrapped? What solution has Marx to offer for such a problem as this? Labour, meanwhile, has been paid twenty shillings in the pound in the production of the plant, but what contribution is it prepared to make towards its total loss? The case quoted is not assumed for the purpose of argument; the country is full of examples such as we mention.

If this discourse is to prove of any utility in assisting to bring about closer co-operation between capital and labour it is desirable that we should

consider the Marxian theory with regard to the foregoing.

In his Essay, "Constant Capital and Variable Capital," pages 185–6, *Das Kapital*, he writes as follows—

"If we now consider the case of any instrument of labour during the whole period of its service, from the day of its entry into the workshop till the day of its banishment into the lumber-room, we find that during this period its use-value has been completely consumed, and therefore its exchange value completely transferred to the product. For instance, if a spinning machine lasts for ten years, it is plain that during that working period its total value is gradually transferred to the product of the ten years. The lifetime of an instrument of labour, therefore, is spent in the repetition of a greater or less number of similar operations. Its life may be compared with that of a human being. Every day brings a man twenty-four hours nearer to his grave; but how many days he has still to travel on that road no man can tell accurately by merely looking at him. This difficulty, however, does not prevent life insurance offices from drawing, by means of the theory of averages, very accurate, and at the same time very profitable, conclusions. So it is with the instruments of labour. It is known by experience how long on the average a machine of a particular kind will last. Suppose its use-value in the labour-process to last only six days Then, on the average, it

loses each day one-sixth of its use-value, and therefore parts with one-sixth of its value to the daily product. The wear and tear of all instruments, their daily loss of use-value, and the corresponding quantity of value they part with to the product, are accordingly calculated upon this basis.

"It is thus strikingly clear that means of production never transfer more value to the product than they themselves lose during the labour-process by the destruction of their own use-value. If such an instrument has no value to lose—if, in other words, it is not the product of human labour, it transfers no value to the product. It helps to create use-values without contributing to the formation of exchange value. In this class are included all means of production supplied by Nature without human assistance, such as land, wind, water, metals *in situ*, and timber in virgin forests."

Then on pages 188 and 193 he returns to the subject as follows—

"We have seen that the means of production transfer value to the new product, so far only as during the labour-process they lose value in the shape of their old use-value. The maximum loss of value that they can suffer in the process is plainly limited by the amount of the original value with which they came into the process, or, in other words, by the labour-time necessary for their production. Therefore, the means of production can

never add more value to the product than they themselves possess independently of the process in which they assist. However useful a given kind of raw material, or a machine, or other means of production may be, though it may cost £150, or, say, 500 days' labour, yet it cannot, under any circumstances, add to the value of the product more than £150. Its value is determined not by the labour-process into which it enters as a means of production, but by that out of which it has issued as a product. In the labour-process it only serves as a mere use-value, a thing with useful properties, and could not, therefore, transfer any value to the product, unless it possessed such value previously.

"As the value of the raw material may change, so, too, may that of the instruments of labour, of the machinery, etc., employed in the process; and consequently that portion of the value of the product transferred to it from them may also change. If, in consequence of a new invention, machinery of a particular kind can be produced by a diminished expenditure of labour, the old machinery becomes depreciated more or less and consequently transfers so much less value to the product. But here, again, the change in value originates outside the process in which the machine is acting as a means of production. Once engaged in this process, the machine cannot transfer more value than it possesses apart from the process.

"Just as a change in the value of the means of production, even after they have commenced to

take a part in the labour process, does not alter their character as constant capital, so, too, a change in the proportion of constant to variable capital does not affect the respective functions of these two kinds of capital. The technical conditions of the labour process may be revolutionised to such an extent that where formerly ten men, using ten implements of small value, worked up a relatively small quantity of raw material, one man may now, with the aid of one expensive machine, work up one hundred times as much raw material. In the latter case we have an enormous increase in the constant capital that is represented by the total value of the means of production used, and at the same time a great reduction in the variable capital invested in labour-power. Such a revolution, however, alters only the quantitative relation between the constant and the variable capital, or the proportions in which the total capital is split up into its constant and variable constituents; it has not in the least degree affected the essential differences between the two."

And in a footnote at the bottom of page 189 it is as well to note the mental attitude which Marx adopts towards problems of this kind; although we know it to be irrational, nevertheless the mental philosophy indicated still exists to a very large extent, and has considerable influence in alienating labour, management and capital—

"In *The Times* of November 26, 1862, a manu-

facturer, whose mill employed 800 hands, and consumed, on the average, 150 bales of East Indian, or 130 bales of American cotton, complains, in doleful manner, of the standing expenses of his factory when not working. He estimates them at £6000 a year. Among them are a number of items that do not concern us here, such as rents, rates, and taxes, insurance, salaries of the manager, book-keeper, engineer, and others. Then he reckons £150 for coal used to heat the mill occasionally, and run the engine now and then. Besides this, he includes the wages of the people employed at odd times to keep the machinery in working order. Lastly, he puts down £1200 for depreciation of machinery, because 'the weather and the natural principle of decay do not suspend their operations because the steam-engine ceases to revolve. He says, emphatically, he does not estimate his depreciation at more than the small sum of £1200, because his machinery is already nearly worn out."

It is very difficult to follow the point that Marx seeks to establish in the foregoing, for he manifestly shows a lack of experience of the subject he attempts to deal with, and also a lack of precision in expression. He evidently stops short in places because it does not suit him for the purpose of his argument to continue. Briefly stated, the actual position is as follows—

In a manufactory the purpose of the capital of

the company controlling it is to provide machinery and tools for labour to operate in production. And we think it can be safely asserted that the object of these means of production is not only to cheapen costs of production as much as possible, but to lighten the burden of labour. Now Marx is of the opinion that a machine tool, for instance, can never add to the value of its production more value than the machine itself possesses independently of the process in which it may assist. And we presume he includes with the machine tool the cutters, fixtures, and jigs that go with it.

To argue the case from this standpoint is wrong in theory as well as in practice, and this applies to labour power, as well as to management and capital.

The use-value of a machine tool, its accessories and motive power, can never be transferred to its product except in orders of a special character, which are not likely to be repeated in the form in which they were originally placed. In all other cases it is the depreciation value, *i. e.* wear and tear, only that is added, or ought to be added, to the cost or value of the article produced. It is obviously necessary to do this in order that the capital of the company invested in the business is not impaired.

In the event, however, of an improved machine tool being placed on the market by the machine-

tool maker which cheapens production by, say, ten or fifteen per cent., the value of the old plant ceases as an asset and must be written off what Marx is pleased to term the constant capital employed in the business, and replaced gradually out of the extra margin of profit which the new machine or machines produce.

But in all the points which Marx raises in this connection he overlooks the fact that costs of production in the manufacture of articles of utility are continuously decreasing, as well as the selling prices, and were it not for this we could not stand the extra burdens of taxation imposed upon us from time to time; nor could labour obtain any increase of wages were it not for the wider margins which improved machinery, and other improved methods, create in production.

In order to confirm this proposition the following table of earnings and production, published in 1915 by the United States Steel Corporation, is quoted, and it is highly instructive. This table is selected because the productions of the company have been protected during the period shown by a tariff. It will be seen that in the year 1902 the United States Steel Corporation earned almost as much on 8,197,000 tons as it did in 1913 on 12,374,000 tons; that the average wages paid have increased continuously from 1902 until 1913 (with the temporary exception of 1904); that, notwith-

standing the continuous increase of wages, costs of production have continuously decreased; that the average price of the finished product has been decreasing throughout the period; that the average profits earned by the Corporation per ton have gradually decreased.

Year.	Average Wage.	Average Prices.	Shipments. Tons.	Earnings per Ton.	Total Net Earnings.
1902	$717	$39·96	8,197,000	$13·25	$133,308,714
1903	702	39·54	7,459,000	10·50	109,171,152
1904	677	34·89	6,793,000	8·51	73,176,522
1905	711	36·64	9,225-000	10·45	119,787,658
1906	730	39·29	10,578,000	11·90	156,642.273
1907	765	40·63	10,565,000	12·55	160,984,673
1908	729	38·17	6,207,000	12 06	91,847,710
1909	776	35 24	9,859,000	10·98	131,491,413
1910	801	36·11	10,734,000	10·86	141,054,754
1911	820	33·11	9,476,000	8·91	104,305,464
1912	859	33·54	12,506,000	6 67	108,174,672
1913	905	36·49	12,374,000	9·05	137,181,345
1914	905	29·41	8,500,000	6·00	75,000,000

Then, again, what about the large producers, *i. e.* firms who produce on a large-scale basis, who have many advantages which the smaller have not; in the fact that they can afford to instal new machinery as it appears on the market, and even retain special staffs for designing automatic machinery in their own private workshops, which often is not heard of outside their own sphere of activity.

Further, it may very often prove, as a matter of fact cases do exist, that although the capital

of two firms engaged in the same line of business and invested in plant and machinery may be regarded as constant capital, yet in character and composition both plants may be as different as chalk is from cheese. In view of this, may it not be regarded as variable capital, thereby disproving Marx's theory? This being the case, and as long as human nature is what it is, is it not useless to assume Marx's proposition as a true one in an economic discussion of the kind such as he seeks to originate?

One of the greatest factors in production is individuality, and nature has provided that certain men shall possess this quality in a greater degree than others. As it is with nature and individuality, so it is between firms and organisations, and it is this constant struggle for perfection which stimulates invention, the arts, and sciences, out of which man's progress is best achieved.

In *First Principles of Production* we laid down the proposition some years ago that the prosperous condition of the State is entirely due to individual initiative; and that similarly the success of a commercial undertaking can invariably be traced to the same source; and that whilst individuality may be contained within the organisation, it is nevertheless present, and makes its influence felt in all of its productions. As we, therefore, cannot equalise temperament, character, and nature gener-

ally, how can we hope to equalise methods and costs of production, such as exist between individual firms or organisations? As it cannot be done, may we not then regard the socialistic theories advanced by Marx as having been exploded by history, time and experience, and as being thoroughly utopian in character?

The theory which Marx also advances that a machine, "though it may cost £150, or, say, 500 days' labour, yet it cannot, under any circumstances, add to the value of the product more than £150," is very amateurish and childish; and we trust we may be excused for using such strong expressions.

The value of an improved machine which costs, say, £150, cannot be, and is not, determined, in so far as the welfare of society is concerned, by its original purchase price, but by the permanent reduction which it ensures in costs of production. The more that costs of production are reduced the more does humanity at large benefit, inasmuch as it is enabled to purchase articles of utility at lower prices. In other words, the purchasing value of the circulating media is increased.

Cheap production is a boon to humanity, for it tends to bring luxury within the reach of all; cheap production in one sphere of activity stimulates further production in other spheres of activity, as it makes possible what in other circumstances

might be impossible. It widens the range of employment and advances civilisation.[1]

As an illustration let us take the case of a sewing-machine. This is a necessity in most homes, more especially in poor ones. If the cost of producing these machines were high only the better-class families could afford to buy them; but if the cost of production be low then every family may buy them; and so we come to see that one of the essential factors in human welfare is cheap production, and it is this aspect of the question that Marx has misunderstood in his treatment of the subject. The value of the machine tool as a means of production, therefore, from the Economic point of view, is determined solely by the permanent contribution which it makes, apart from the possibility of enabling higher wages and taxation to be paid, to the welfare and comfort of society generally, by lowering the price of the article of utility it produces.

If this be so, and we believe the proposition to be incontrovertible, Marx was certainly wrong in persuading labour-power into believing, as he does on page 427, *Das Kapital*, that all machinery, being the embodiment of capital, is to be fought against; and labour-power must surely agree with our view.

Marx takes a very superficial view of the value

[1] *First Principles of Production* (J. Taylor Peddie), p. 19.

of modern machinery, and although experience and result has disproved the fallacy he sought to establish in this connection, yet his views are still very largely held by organised labour to-day. If we can, therefore, meet the arguments squarely and show the true and tested doctrine which history and experience has proved to be sound, we may pave the way for a better understanding between capital, management and labour.

If we have no immediate experience of what other men feel, or think, we can form no idea of the manner in which they are affected. But if, on the other hand, we know what they feel and think, yet do not make any attempt to understand it, or to dissipate any erroneous impression which may be formed, we cannot rely upon securing that confidence which is the first essential of any understanding.

The stand which organised labour takes to-day against modern machinery and other improved methods of production can be attributed to the following erroneous proposition advanced by Marx in his Book, *Das Kapital*, page 451. The average lay mind would be inclined, at the first impression, to accept it as a true proposition, but we have already explained in the last two pages why it is not, and everything that is possible should be done to dissipate the erroneous impressions that have been formed in regard thereto.

"Nevertheless, in spite of the mass of hands actually displaced and virtually replaced by machinery, we can understand how the factory operatives, through the building of more mills and the extension of old ones in a given industry, may become more numerous than the manufacturing workmen and handicraftsmen that have been displaced. Suppose, for example, that, in the old mode of production, a capital of £500 is employed weekly, two-fifths being constant and three-fifths variable capital, *i. e.* £200 being laid out in means of production, and £300, say £1 per man, in labour-power. On the introduction of machinery the composition of this capital becomes altered. We will suppose it to consist of four-fifths constant and one-fifth variable, which means that only £100 is now laid out in labour-power. Consequently, two-thirds of the workmen are discharged. If now the business extends, and the total capital employed grows to £1500 under unchanged conditions, the number of operatives employed will increase to 300, just as many as before the introduction of machinery. If the capital further grows to £200, 400 men will be employed, or one-third more than under the old system. Their numbers have, in point of fact, increased by 100, but relatively, *i. e.* in proportion to the total capital advanced, they have diminished by 800, for the £2000 capital would, in the old state of things, have employed 1200 instead of 400 men. Hence, a relative decrease in the number of hands is consistent with an actual increase. We assumed above

that while the total capital increases, its composition remains the same, because the conditions of production remain constant. But we have already seen that, with every advance in the use of machinery, the constant component of capital, that part which consists of machinery, raw material, etc., increases, while the variable component, the part laid out in labour-power, decreases. We also know that in no other system of production is improvement so continuous, and the composition of the capital employed so constantly changing as in the factory system."

It is the general want of knowledge of Economic Science which is the cause of most of the trouble and suspicion which exists between capital, management and labour, and it is strange how blindly political groups follow the apostles of a particular school of economic thought merely because the policy they advocate is the one most likely to satisfy their political inclinations.

We have Liberals following the doctrine of *Laissez faire*, *Laissez passer* advocated by John Stuart Mill and Richard Cobden because it will ensure a reservoir of cheap labour; we have Socialists following the Marxian theories of getting something for nothing; and we have certain manufacturers who desire the American system of high tariffs in order to establish the principle of restriction of trade. Each of these groups is unques-

tionably chasing the shadow up a blind alley, and it is this groping in the dark which is responsible for the industrial unrest and suspicion which prevails in this country more than in any other.

We are far too empirical in our methods; we have no national system through which all effort can be co-ordinated for mutual advantage, and through which such inequalities as may arise in our everyday working conditions may be satisfactorily adjusted.

If the intellectual leaders of each group can be made to see that their interests, from the point of view of individual and national welfare, in all respects are identical, one of the great obstacles which stands in the way of an intimate co-operation would be removed, and the way cleared for a proper dissemination of knowledge in matters economic. And this knowledge can only percolate throughout the general community, starting from the leaders of the political groups themselves, who must first of all signify outwardly a proper understanding of their responsibilities in regard to the advancement of general welfare.

The contest in Marx's view between the capitalist and the wage labourer dates back to the very origin of capital, and has raged on throughout the whole manufacturing period; and that it is only since the introduction of machinery that the workman has fought against the instrument of labour

itself; that he revolts against this particular form of the means of production as being the material basis of the capitalist mode of production.

Yet if we study our economic history we find, forsooth, that labour-power to-day is paid better wages by far, and has much shorter hours, than was meted out to labour-power in the days of Carl Marx himself. And these improved conditions and environment are entirely due to the improved machines which, by innuendo, Marx suggests labour-power should fight against. And so it comes to pass that the prophet himself is disproved by experience and result.

Marx did not give consideration to the fact that in the introduction of modern machinery we found one of the solutions for lightening the burdens of labour and in limiting the hours worked per day. At any rate he gives no indication that he fully appreciated this aspect of the question.

We take it that labour not only desires remunerative employment, but a certain amount of leisure in which to enjoy nature and art, and the other good things of life. How, therefore, can these things be achieved unless efficient and powerful machinery can assume the burden hitherto undertaken by man himself?

Further, it does not necessarily follow that because an article of utility is reduced in cost by seventy-five per cent. by improved machinery that

this reduction of cost is effected at the expense of labour. On the contrary, it widens the range of employment because it makes possible what in other circumstances would be impossible. It makes possible the building of great bridges, high-power locomotive machinery and steamships, facilitates transportation, increases the comfort of travelling, makes home life more of a pleasure, particularly to the women, has brought into public utility electricity, the telephone and telegraph, and last, but not least, has brought the granting of a minimum wage to every able-bodied man nearer to practical realisation.

The application of science to industry, whether in the sphere of chemistry or engineering, has completely revolutionised thought, inasmuch as it has substituted investigation and accuracy for intuition and empirical methods. The result of this is, of course, an accession of problems, subversive and constructive, particularly in the sphere of organised labour, of an absolutely unlimited inquisitiveness and a belief in the importance of evidence.

But if these characteristics be understood and appreciated in the discourse we have entered upon, and a disposition shown or manifested by those concerned to understand them, it will go far to clear the way to a proper understanding between capital, labour and management. We cannot afford to allow these forces to drift forward in the

world as an incoherent mass and persist in refusing to understand the mode of thought which inspires each force. Capital, labour, and management should be brought to realise that National Economics based on freedom of trade is a definite science; and that co-operation, knowledge and an appreciation of the theory of moral sentiment are the keys to the solution of many of the difficulties which confront them at the moment; and that such difficulties are not, as many believe, insurmountable.

CHAPTER VI

THE SOLUTION OF THE LABOUR PROBLEM

As we have previously indicated, we are somewhat conscious, notwithstanding our criticism of Marx as an economist, of the evolution which he had in mind. And while we are of the opinion that he was deductive in his theories, we believe he was a better student of philosophy than he was of political economy.

Marx perceived himself that the problem was one of moral sentiment, and if we examine his propositions or his observations from this standpoint, leaving out his platitudes and peculiar theories, we shall begin to see daylight and comprehend the objective he was aiming at. We should certainly be doing him more justice.

One of the really good points which he makes is as follows—

"The value of labour-power is determined, as in the case of every other commodity, by the labour-time necessary for the production, and con-

sequently also the reproduction, of this special article. So far as it has value, it represents no more than a definite quantity of the average labour of society incorporated in it. Labour-power exists only as a capacity, or power of the living individual. Its production consequently presupposes his existence. Given the individual, the production of labour-power consists in his reproduction of himself or his maintenance. For his maintenance he requires a given quantity of the means of subsistence. Therefore the labour-time requisite for the production of labour-power reduces itself to that necessary for the production of those means of subsistence; in other words, the value of labour-power is the value of the means of subsistence necessary for the maintenance of the labourer. Labour-power, however, becomes a reality only by its existence; it sets itself in action only by working. But thereby a definite quantity of human muscle, nerve, brain, etc., is wasted, and these require to be restored. This increased expenditure demands a larger income. If the owner of labour-power works to-day, to-morrow he must again be able to repeat the same process in the same conditions as regards health and strength. His means of subsistence must therefore be sufficient to maintain him in his normal state as a labouring individual. His natural wants, such as food, clothing, fuel, and housing vary according to the climate and other physical conditions of his country. On the other hand, the number and extent of his so-called necessary wants, as also the modes of satisfy-

ing them, are themselves the product of historical development, and depend therefore to a great extent on the degree of civilisation of a country, more particularly on the conditions under which, and consequently on the habits and degree of comfort in which, the class of free labourers has been formed. In contradistinction, therefore, to the case of other commodities, there enters into the determination of the value of labour-power an historical and moral element. Nevertheless, in a given country, at a given period, the average quantity of the means of subsistence necessary for the labourer is practically known.

"The owner of labour-power is mortal. If, then, his appearance in the market is to be continuous, and the continuous conversion of money into capital assumes this, the seller of labour-power must perpetuate himself, 'in the way that every living individual perpetuates himself, by procreation.' The labour-power withdrawn from the market by wear and tear and death must be continually replaced by, at the very least, an equal amount of fresh labour-power. Hence the sum of the means of subsistence necessary for the production of labour-power must include the means necessary for the labourer's substitutes, *i. e.* his children, in order that this race of peculiar commodity-owners may perpetuate its appearance in the market.

"In order to modify the human organism, so that it may acquire skill and handiness in a given branch of industry, and become labour-power of a

special kind, a special education or training is requisite, and this, on its part, costs an equivalent in commodities of a greater or less amount. This amount varies according to the more or less complicated character of the labour-power. The expenses of this education (excessively small in the case of ordinary labour-power) enter *pro tanto* into the total value spent in its production.

"The value of labour-power resolves itself into the value of a definite quantity of the means of subsistence. It therefore varies with the value of these means or with the quantity of labour requisite for their production." [1]

The point is good. Every able-bodied man who is given employment or whose services are desired in the development of production ought to have a wage of a size sufficient to enable him to purchase the means of subsistence; in other words, a minimum wage should be legalised by law. In this particular instance the truth of Marx's assertion cannot be denied that the value of labour-power is the value of the means of subsistence necessary for the maintenance of the labourer; and that labour-power becomes a reality only by its existence and reproduction. The worker's means of subsistence should be sufficient to enable him to maintain his normal state of health, wife and family (if any), and satisfy their wants in clothing, fuel, food and housing.

[1] *Das Kapital*, p. 149–151.

The more closely this proposition is examined, the more will the truth of it be conceded; we have to ensure the maintenance of healthy parents, both in body and mind, if for no other reason than reproduction alone; we have to provide for a continuous supply of efficient and healthy labour-power if we are to hold our own in general competition. And this general proposition applies as well to the requirements of the Army and Navy in man-power. Even if we reduce this general proposition to one of sordid materialism, apart from the aspect of moral sentiment attached to it, it will surely be generally conceded that the stronger we are as a race, mentally and physically, so much stronger shall we be for offensive and defensive purposes; efficient man-power is the kernel of all movements either for military or industrial purposes, and the measure of our success can only be the measure of our strength in these respects.

If, then, this general proposition be accepted, and it will be difficult not to do so, what must we do to give it effect? The only thing to do is to concede that every able-bodied man of eighteen years and over shall not be employed by any person, company or firm, at a wage less than twenty-five shillings per week. Although in consequence of the war the purchasing value of the sovereign may have been reduced to twelve shil-

lings, as compared with its pre-war value, yet we believe that after the war its purchasing value will increase in like proportion, and for this reason we are not disposed to recommend any larger amount than twenty-five shillings, although we are aware of the fact that the Labour Party would like to see a minimum wage of thirty shillings established. But as all evolutionary processes must necessarily be of slow growth, we recommend that the limit should not exceed twenty-five shillings per week; the main object for the present being to secure the establishment of the principle.

With regard to the position of juvenile and female labour, it will be difficult to make any regulation as to wages in their case, but it will, we think, be conceded that the value of their services in the labour market will be entirely regulated by the standard minimum wage for adult male labour; one will be a reflection of the other, so that their position, we believe, will automatically improve in its relation to the other. At any rate this has been the experience gained during the present war-demand for labour.

As regards married men with families, the same argument applies; not only that, but parents could look forward to the future with more confidence, realising that their sons would each, at the age of eighteen years, be in a position to contribute twenty-five shillings to the family revenue. And this

confidence would tend to encourage reproduction instead of restricting it as at present.

If, then, the proposal be considered in all its aspects there is much to be said in favour of establishing the principle of the minimum wage.

ON THE WORKING DAY

Now let us consider the question of the hours worked per day, and the view that Marx expresses upon the subject. In the chapter devoted to the working day, page 251, *Das Kapital*, he makes another good point which deserves every attention—

"The capitalistic mode of production (essentially the production of surplus-value, the absorption of surplus-labour) produces thus, with the extension of the working-day, not only the deterioration of human labour-power by robbing it of its normal, moral and physical conditions of development and function; it produces also the premature exhaustion and death of this labour-power itself. It extends the labourer's time of production during a given period by shortening his actual life-time.

"But the value of the labour-power includes

the value of the commodities necessary for the reproduction of the worker, or for the keeping up of the working class. If, then, the unnatural extension of the working-day that capital necessarily strives after, in its unmeasured passion for self-expansion, shortens the length of life of the individual labourer, and therefore the duration of his labour-power, the forces used up have to be replaced at a more rapid rate and the sums of the expenses for the reproduction of labour-power will be greater; just as in a machine the part of its value to be reproduced every day is greater the more rapidly the machine is worn out. It would seem, therefore, that the interest of capital itself points in the direction of a normal working day."

There has been a considerable shortening of the working day since Carl Marx first wrote upon the subject, yet we believe that if organised labour were to abandon the "ca' canny" policy, *i. e.* restriction of output, employers generally would be prepared to concede the principle of a nine-hour working day, *i. e.* fifty hours per week, and an eight-hour day, *i. e.* forty-four hours per week, for hazardous and precarious employments. We have discussed this matter with important engineering employers on the Clyde and on the Tyne, and without exception they have all expressed themselves in this manner.

One gentleman in particular admitted that the worker, he considered, was entitled to a share of the good things of this life, and that he should be afforded a certain amount of leisure time for study or to enjoy the beauties of nature and art, in order to break the monotony created by continuous environment, and always performing the same operation. Not only that, but he believed that in affording the working man a little leisure he would take a more intelligent interest in the means of production, and possibly in the methods employed. There is much to be said in support of this evidence, inasmuch as the variety of life which such a system would introduce, and the break in constant mental application, would enable the workman to enjoy work and look upon it as a pleasure. Or they would probably come to agree with Epicurus, who said "that man, being born for action, his happiness must consist, not merely in the agreeableness of his passive sensations, but also in the propriety of his active exertions."

And it would perhaps be as well to say that, according to the same authority, which demonstates, again, that there is nothing new under the sun, showing that nature is at all times the same, "The primary objects of natural desire consisted in bodily pleasure and pain, and in nothing else." But according to Plato, Aristotle and Zeno there were many other objects such as knowledge, such

as the happiness of our relations, of our friends, of our country, which were ultimately desirable for their own sakes.

It has never been quite clear to us why employers should always persist in bringing their workmen out of bed to start work at six o'clock in the morning and then send them home again at seven-thirty for breakfast. We should like to see the breakfast hour abolished altogether. If the workman has to travel for three-quarters of an hour to his place of employment from home, it means that he has to get up at five o'clock in the morning. It also means, perhaps, that his wife will have to be troubled at that hour to make a cup of tea for her husband as a sort of stimulant until the regular breakfast hour.

The fatigue and irritation which this regulation must necessarily incur must surely make for inefficiency in production. It cannot be expected that the mentality of the workman can have the necessary consistency or activity for concentration upon his work if he has to be subject to such unbusinesslike regulations.

Apart from the foregoing, the maintenance of the breakfast hour must assuredly increase the overhead or standing charges of the factory, and make for decrease of output for the following reasons: In the first instance the workman, not having had anything to eat between the hours of five and

seven-thirty, is certain to be in his weakest condition, and for want of adequate rest have a dull brain.

In addition to this it usually takes five or ten minutes for the plant to start up and get into full swing, which has to be interrupted at the breakfast hour. It may also be taken for granted that, in consequence of the workman's natural desire to get home for breakfast to have something to eat, he is watching the clock for five or ten minutes before the adjournment instead of the work he may have in hand. This time is all paid for by the employers but lost to them; in addition to which they have the cost of the motive power to pay which has to be maintained during the interval.

When the workman returns from breakfast another five or ten minutes is lost in starting up for the second period of the day's work; so that if everything is taken into consideration it would seem to be in the employers' interest to abolish the breakfast hour altogether, and have one break per day only; they should arrange that their employees shall commence work not earlier than 8 a.m., continuing until 12.30, allowing one hour for lunch, resuming again at 1.30, and finishing at 6 p.m. On Saturday the hours should run from 8 to 1 p.m.

The foregoing time-table would provide a fifty-

hour working week, which is the least that can be asked by the worker, and the most that ought to be asked by the employer.

In hazardous and precarious occupations the hours of employment should be from 8.30 to 12.30, and 1.30 to 5.30, terminating for the week at 12.30 on Saturday, making in all a 44-hour working week.

We feel very confident that if the foregoing reforms could be effected it would make not only for an increase in efficiency in production and inventive faculty, but also make the workman more friendly disposed towards co-operating with his employer in all matters affecting the development of national industry.

Some people may say, of course, that in conceding the principle of a minimum wage and a limited working day we shall run the risk of losing our position in the international market in consequence of the increase in cost of production, and of the longer hours and lower wages accepted by labour in foreign countries. This would be true if organised labour were to persist in maintaining the "ca' canny" policy, *i. e.* restriction of output, and the policy of *Laissez faire*, *Laissez passer*, so fondly supported by Liberals and the Cobdenite school of thought. But we think it would have the reverse action if organised labour, management and capital were to co-operate and agree to

a National System of Economics as enunciated herein.

It follows, of course, that if the leaders of organised labour were not to respond to the course herein advocated, *i. e.* by abolishing and prohibiting all restrictive measures to output, the Trades Dispute Act, and the Free Trade policy, no agreement could be possible. Not only that, but even if an agreement were to be concluded on the basis of this discussion and subsequently broken, it should be provided by Act of Parliament that the respective positions of the parties concerned should revert to the *status quo ante*. Provisions of this kind would protect the welfare and general interests of the country, and no agreement should be concluded without them.

ON SURPLUS VALUES

To organised labour we have one more word to say, and it is this: that the theory advanced by Carl Marx upon the subject of surplus values is erroneous. It is the possibility of creating surplus values in production that keeps the whole of industry going; and for as many people who ulti-

mately, by hard effort and enterprise, secure what Marx is pleased to term a surplus value, there are as many who lose the capital with which they embarked on the enterprise to obtain it. One balances the other, and it is the constant struggle for perfection that keeps us going.

What we as a nation suffer from most to-day is the lack of enterprise and of thoroughly trained young business men; but if there was no possibility of rewarding enterprise and energy by surplus values, how would it be possible to obtain them? As a matter of practical politics, therefore, we regard Marx's flowery phrase of "surplus values" merely as a figure of speech, and a false and misleading theory.

In this connection we are glad to be able to record that Mr. Samuel Gompers, the well-known leader of organised labour in America, expresses very much the same view on the subject. After an extended tour of Europe, undertaken a few years before the war, and an investigation of the conditions of European labour, he wrote several articles for the *American Federationist*, extracts from which we quote as follows. The first is a scathing reply to an invitation which he received from Mr. Robert Hunter, a leading American Socialist, to join the Socialist movement.

Mr. Gompers, who is the greatest living American authority on the subject, declared that

American workmen would have nothing to do with the Marxian movement, and gave as his reason the continual improvement of the economic position of the United States. He asserted unequivocally that the wages of American workmen were rising faster than the cost of living, and his attack on the Marxian theories may be considered one of the most comprehensive ever made on behalf of American labour. In part it is as follows—

"See what Marx believed was to be the fate of the wage-workers. 'Deeper and deeper' they were to sink, 'pauperism' developing 'even more rapidly than population or wealth.' This was the logical outcome of Marx's doctrine of 'surplus values,' which, in a nutshell, is that 'after the labourer has been paid the wage necessary for the subsistence of himself and family, the surplus of his labour is appropriated by the capitalist who exploits it.' Marx's 'misery, oppression, slavery, degradation, exploitation' of the masses are essential factors in the intolerable social conditions which must precede the 'bursting asunder' of capitalism. . . . Without the progressive impoverishment, degeneration and hopeless economic enserfdom of the masses of working men, Marx's 'crack o' doom' is causeless, illogical, anti-natural, a devil's miracle. . . .

"When the foundation of Marx's theories—the idea of surplus value—is demonstrably an error; when, on the contrary, the possibilities for

the arrival of the working classes at a general plane that will permit the full development of manhood become certainties, his ingeniously worked out correlatives of this first principle have no more value than the imaginings of any other guesser at probabilities for the future. His time-wage system, his co-operative commonwealth, and especially his notions as to religion and the family then take their place with the fanciful divagations of Jules Verne and H. G. Wells when fashioning their perfect new worlds out of this unlovely old one. You, Mr. Hunter, and your school of observers, and we and other working class observers, see the phenomena of social changes through different eyes. . . . We solemnly assure you, Mr. Hunter, that we have not hitherto heard your news regarding the thousand new great trusts and monopolies. . . .

"One great set of facts, on the contrary, that we have observed, reading them by decades, is that millions of American wage-workers now have a shorter work-day by several hours than they had thirty years ago, and that the present organisation of employing capital has almost wholly eliminated the uncertainty formerly experienced by wage-workers for small employers as to getting their pay when due. Constantly increasing wages, on the whole, during the present generation, considerably exceeding the rise in average prices meantime, can be shown by the records of the wage-scales for the workers, organised and unorganised. . . . Looking over our whole broad

land, there was never a greater proportion of home owners, never a higher level of comfort, among America's workers. And it is to be remembered that American labour has had to bear the burden of competition, with an immigration that in the last decade has brought to the population a net increase of at least five million labourers, nearly all so poor on arrival that a month's idleness would have brought them face to face with starvation.

"The death-rate, that sure measure of misery, has steadily decreased. Only three children of the poor die now where five died fifty years ago, and for the trades a continually advancing longevity is shown by the insurance tables. . . . Mr. Hunter's reference to the Socialists helping 'to build up the great trade union movement' brings us to say 'Heaven save us from such friends.' . . . So long as you really teach the value of education, of personal thrift, voluntary co-operative effort, organised self-help, the defence of political rights, the merits of a thoroughgoing democracy, the benefits of good administration, and the abolition of economic privilege, you are assisting in demolishing Marx's Socialism. . . . Mr. Hunter, the time may be at hand for you Socialists to make another little change or two. You may be able to play at turning back the clock, but you cannot turn back time itself. You should acknowledge yourselves opportunists at present, to the extent of nine-tenths, and hide the other little tenth, your universal slave-pen co-operative commonwealth, far back on the shelf among the unessentials to eco-

nomic justice, where the wise ones among you keep Marx's 'frank and avowed materialism' and Babel's 'Woman.'"

In another most authoritative and instructive Article on the much-argued comparative cost of living in the United States and Europe, and the low rate of wages paid in Great Britain, Gompers wrote as follows—

"Earnings in England, however, cannot be based on weekly wage-scales; unemployment, varying as to the individuals involved, is now so bad as to be spoken of as a settled national feature in industry. The Inspector-General of the Army was quoted at Ipswich (at the Trade Union Congress) as mentioning in his last annual report that ninety out of every hundred men enlisting in the Army had given unemployment as their reason for becoming soldiers. . . . My facts indicate that money wages in America in many trades are double those paid abroad.

"But the cost of living?

"The European working classes have ever before them the struggle for a barely decent living. Their necessary annual family 'budget' comprises plain and cheap food, which, on the average, takes forty to sixty-five per cent. of the entire outlay, quarters in either an 'industrial' or 'slum' district requiring twenty to thirty-five per cent., and clothing ten per cent. or more. Mentally contemplating the many cities I visited, and having

in mind the conversations I had with working men who lived both in America and in Europe, I believe I may assert that whether the cost of living in Europe or America is greater to the working man depends entirely on the standard of living he adopts while in America.

"If he voluntarily lives the life of self-denial that he compulsorily lived in his native land, his outlay in money will remain about the same. Even then he will hardly be able to escape gaining something from the superior supply of the good things of life in America. . . . Living is cheap to the wage-worker in Europe only because he does without what in America soon becomes a necessity to him—food in good quantity and quality, presentable clothes among his aspiring fellow-workmen and their families, and a comfortably furnished home in quarters responding to his awakened desires for equality with his American neighbours, and, in general, a larger and freer life.

"'How often do these people eat meat?' is a question the American in Europe finds himself asking when looking about among wage-workers. Meat is usually from twenty-five to a hundred per cent. higher in price than in the United States. . . . The immigrant coming to America finds that if he can buy in quantity, and in cases where he need not, his flour, fuel, potatoes, oil, sugar, coffee, salt—the essentials of his plain table—all cost less than they ordinarily do in the land he left. The cheapness and abundance of many varieties of fruits and of our melons and tomatoes is a

surprise to him. Closely after the most pressing necessities comes a line of things cheaper than in Europe—cotton clothing, including overalls, jumpers, shoes. Access to good water renders expenditure for alcoholic drinks less common.

"The cheapness of good amusements in America deserves more attention than has been given the subject by the professional investigator; it is a social factor having an enormous influence on the tastes and education of the working-class public. The possibility of regarding outlay for amusements as one of the regular items in family expenses is an indication of the working-class standard of living. How the wage-earners dress themselves is not so much a question of the cheapness of clothing as it is of what is left over for this purpose, after food, shelter, and other unavoidable family needs have been provided for."

It may occasion surprise to some people to note the strong difference of opinion on matters economic which seems to exist between the leaders of American organised labour and British organised labour, but if the problem is examined a little more deeply the reason will soon be found.

THE THEORY OF AMERICAN PROTECTION FROM THE POINT OF VIEW OF AMERICAN ORGANISED LABOUR

In order to fully appreciate the point of view so ably advanced by Gompers on behalf of American organised labour we have to examine the theory of American Protection from the standpoint of American labour.

The father of the American Protectionist school was Senator Thomas B. Reed, who, we believe, was the first person to perceive the basis through which the wealth and welfare of nationalities could best be developed, and upon which a proper understanding with organised labour was possible.

There was no greater exponent of the subject than Reed, and we have to thank Mr. Moreton Frewen, one of the most distinguished advocates of the new school of economics in Great Britain, for introducing him to this country. Mr. Frewen wrote an article in the *Nineteenth Century* for November 1910, on the theory of American Protection, and had it received more consideration and attention at the time it was written, we believe it might have tempered the subsequent bitter political discussions on the subject of tariffs, to the advantage of the country.

Although we do not believe in the American theory of high tariffs, nevertheless the views

advocated by Reed apply to the principles underlying the theory of low tariffs equally as much as they do to the principles underlying the theory of high tariffs; in view of this we have no hesitation in supporting Reed's views and in submitting them for due consideration, particularly as they are also supported by the leaders and followers of organised labour in America.

In the Essay referred to above, which appeared in the *Nineteenth Century* magazine, Mr. Frewen began with the following extract from a speech made by Mr. Reed in the House of Representatives, Washington, May 1888, as follows—

"Perhaps the best argument I can make for Protection is to state what it is and the principles on which it is founded.

"Man derives his greatest powers from his association with other men, his union with his fellows. Whoever considers the human being as a creature alone, isolated and separated, and tries to comprehend mankind by mathematically adding these atoms together, has utterly failed to comprehend the human race and its tremendous mission. Sixty millions even of such creatures without association are only so many beasts that perish. But sixty millions of men welded together by national brotherhood, each supporting, sustaining, and buttressing the other, are the sure conquerors of all those mighty forces of Nature which constitute the wealth of the world. The great blunder

of the Herr Professor of Political Economy has been that he treats human beings as if every man were so many foot-pounds—such and such a fraction of a horse-power. All the soul of man he leaves out.

"Think for a moment of the primordial principle involved in the question I now ask. Where does wealth come from? It comes from the power of man to let loose and yet guide those elemental forces, the energy of which is infinite. It comes from the power of man to force the earth to give her increase, to hold in the bellying sail the passing breeze, to harness the waterfall, to dam the great rivers, to put bits in the mouth of the lightning. Foot-pounds and fractions of a horse-power will never do this. It takes brains and the union of foot-pounds and fractions of a horse-power working harmoniously.

"*For a nation to get out of itself or out of the earth all the wealth there is in both, it is not necessary for that nation to buy cheap or sell dear.* That concerns the individual alone. What concerns the nation is how to utilise all the best work there is in man, both of muscle and mind, of body and soul, in the great enterprise of setting in motion the ever gratuitous forces of nature. How shall you get out of all your people their full powers? Right here is precisely the dividing line. The 'let alone' school say, Leave individual man to his own devices. *The Protectionist school say, Let us stimulate combined and aggregated man to united endeavour.*"

The italics are ours. But the whole quotation is an eloquent dissertation on the first principles of National Economics based on freedom of trade.

As Mr. Frewen so very pointedly remarked, "it may seem almost ungracious to suggest at this late date that the theory of American Protection—a theory which has created and largely satisfied a public opinion probably the most exacting and 'insurgent' in the world—has never yet been translated for us by our Tariff Reformers"; to which we might add, of course, our Political Economists and leaders of organised labour. We can fully understand why the Cobdenite school of thought has not seen fit to do so, but the reason why this study should have been ignored by authoritative opinion in this country is inexplicable.

Great "progress to reform has, indeed, been made, but the views advanced have not generally been of the sort to dominate the almost ineradicable prejudices of our elder men. The philosophy of Protection—the American view that Protection is good in itself, and not merely good because it creates wealth—this great and fertile field of research is as yet a desert to our explorers. It requires, however, to be cultivated, and cultivated carefully" if we are to create the same healthy and illuminating public opinion in this country as exists in America; nobody can honestly suggest

that industrial problems in this country are in reality different to those which exist, and have existed, in America.

Mr. Frewen claims that "in Reed's view, the problem of the tariff had but an incidental relation to economics and to the problems of revenue. Protection was for him far more a problem in sociology than in finance." And so it is. "Senator Reed, drawling and cynical, would phrase it in some such words as these: "This is a rich country, and belongs not to a few, but to us all; how are we going to distribute wealth as we produce it, without the noise and distraction of gun-play? We can distribute wealth as the Socialist advises by tax and supertax; this is discouraging and makes for bad blood and class quarrels. What is the alternative? It is to distribute wealth through wages. Let us try and give the whole sum of things produced, one year with another, to the wage-earner; if so, we shall make him a good citizen." "The whole sum, Tom?" our friend Senator Jones would say deprecatingly. "Yes," Reed would reply, "let us aim even at that. We shall never do it, because they are smart as Ananias, many of these capitalists, and will keep back part of the price; there is no danger of our getting it all. When that day dawns Protection may celebrate its millennium."

It would, of course, be a rather one-sided, and

an unfair, proposition that all the reward should be given to labour and nothing to enterprise, management and capital. As Mr. Frewen remarked, "such an endeavour would seem conscienceless; Reed was a man impoverished by splendid success in the public service; to the very end of that service he was almost in straitened circumstances; he, indeed, might have said what Agassiz said on his death-bed, 'I have never had the time to get rich.'" But although this was Reed's outlook on life he was, nevertheless, not unfair. In his speech on the Mills Tariff he said—

"After all, it is this exaggerated idea of the profits of the manufacturer which is at the bottom of the Chairman's feelings. Whenever I walk through the streets of New York and look at those brown stone palaces, my gorge rises. I can never understand why the virtue, which I know is on the sidewalk, is not also rewarded. I do not feel kindly to the class inside. It is good, honest, high-minded envy. *When gentlemen opposite have the same feeling, they think it is political economy.*"

According to Mr. Frewen, "Reed believed that national prosperity was in the market-place. It was not in the skinning of flints, but in the furious drive onward and upward, of all—a nation employed all the time at the very highest wages which

the wealth created and to be distributed would allow. Such, then, being the foundation of Reed's National Economy: namely, the distribution of wealth through high wages, how did he begin to build? In his view the best Government was that under which the most workers got the most wages. Reed pointed out that the American rate of wages was quite incompatible with unrestricted free imports, which, by pulling down prices, must reduce wages also; and he developed this proposition as follows: "In a debate on the Wilson Tariff Bill in 1894, he said that the average wages paid in America were one dollar and sixty cents a day (6*s.* 6*d.*), as compared with a dollar a day (4*s.*) in England. From the American's, and equally from the Englishman's, wage there must be deducted daily sixty cents (2*s.* 6*d.*) for a 'subsistence ration'—for the mere fuel and oil for the human machine. So that, after his day's work, the American had a hundred cents and the Briton forty cents to go shopping with. Since that speech was made sixteen years ago the rate of American wages has very greatly advanced. It is quite safe to say that to-day some thirty million American workers have in hand every night, after their daily bread is paid for, far more than thirty million dollars for their shopping. In other words, over and above the actual necessaries of life, the American working classes have two thousand millions sterling a

year to expend in supporting their home market. £2,000,000,000! A sum, this, considerably in excess of the total annual production of wealth in Great Britain from all sources whatever, even if we include the interest on our foreign investments.

"It is, then, these vast daily expenditures by the 'plain people' of America, and only these, which make good times for trade, and are the ever fresh foundations for huge capitalist accumulations. Given full employment at high wages, every class within the nation must be prosperous. It is, therefore, the first duty of a good citizen to pay the highest wages possible. Enlightened self-interest binds him to this duty. For unless he gives freely he cannot receive bounteously. Thus in Reed's philosophy American industries constitute a vast 'Truck System'; every employer is vitally concerned that public opinion shall be so focused as to compel his neighbour to pay the highest conceivable rate of wages, because every night the wage recipient will be inside his shop. From the view-point of the American capitalist a 'tramp,' a man out of work, is a public scandal. Such an one creates no rivulet of demand; he is a low fellow, away with him!—he but spoils the symmetry of American Protection. But in the English system ten per cent. of our people chronically out of work present the capitalist with precisely his opportunity. For the competition of

this ten per cent. can always be relied upon to 'sweat' the entire level of wages throughout the country. Reed's theory of 'indefinite perfectibility' was this. From era to era there will emerge for us great inventions, labour saving, expanding production, but only if in a rigidly protected market. These inventions operated within America will secure a higher and higher level of wages, during shorter and shorter hours. But share these inventions in our own market with a manufactured product coming from China, and how is it possible to keep the home rate of wages rising and thus distribute among our own producers a higher proportion of wealth produced?" It may be well to give Reed's own words, as expressed in his great speech of 1894—

"I confess to you that this question of wages is to me the vital question. To insure our advance in civilisation and in wealth we must not only have wages as high as to-day, but constantly and steadily increasing. In my judgment, upon wages, and the consequent distribution of consumable wealth, there is based all our hope for the future and all the progress of our civilisation. And the forward march of this nation is dependent on the progress of every one. *The fact that in this country all our workers have been getting higher wages than elsewhere is the reason why our market is the best in the world, and why all the nations of the earth are trying to break into it.*"

"Here, in the smallest compass," continues Mr. Frewen, "is that very theory of the distribution of wealth through high wages for which the modern world is waiting. If it is found to be scientific, then Socialism is unnecessary. I can, indeed, imagine a world wherein humanity just a little lower than the angels could operate a philosophy of Socialism. So could Reed. I often heard him discuss its limitations. But that world is for ever away, while the poor we have always with us. The absorption of production through high wages —that we are ready for at this moment, and that, rightly understood, is the underlying principle of American Protection."

The most notable feature of the discussions and debates which have hitherto taken place on Economic problems is this, that the most devoted adherents of the doctrine of individual liberty also seem to be the greatest advocates of the policy of *Laissez faire*, *Laissez passer;* but, as Reed has pointed out, "the great blunder of the Herr Professor of Political Economy has been that he treats human beings as if every man were so many foot-pounds—such and such a fraction of a horse-power. *All the soul of man he leaves out.*"

What has really happened is that, owing to the so-called system of free trade, two great evils have been established in our midst, namely: (1) The

concentration of extreme wealth in a few hands; and (2) extremes of poverty. Advocates of this system have failed to conceive that the maintenance of the principles of liberty, freedom and justice, whilst admirable in themselves, are yet not consistent with *Laissez faire, Laissez passer.*

National Economics cannot be separated from National Sociology, and if we accept this as a proposition, which it will be difficult not to do, the State must surely by wise laws and regulations regulate all unequal conditions which exist.

National Economics pertains to the laws which govern the production and distribution of wealth; but whilst the great experience and knowledge we have acquired during the last century have made us all proficient in the art of production, although we are not quite as efficient as some would like to see us, yet we have not acquired the same experience and knowledge in the art of distributing the wealth so produced; and we believe this to be the main contributing cause of the dissatisfaction which prevails between capital, management, and organised labour.

It cannot be too strongly emphasised, in view of what we have just stated, that National Economics and Social Science are inseparable, since they both deal, or ought to, with the happiness and welfare of the greatest number.

Individual freedom is the most precious of all

our national characteristics; but it follows that individual freedom can only be most assured and be at its greatest when collective liberty, prosperity, and well-being, prevail. In other words, the extent to which we may enjoy individual freedom very much depends upon the extent to which our country enjoys the necessary freedom and liberty in the production of utilities and commodities. Individual freedom in the acquisition of wealth becomes a tyranny when the conditions in which it is obtained are unequal, and when a like freedom is refused to others; or when it is unjust in distributing wealth and welfare equitably to art, capital, enterprise, management, intellect and labour, in due proportion to the exertion which each of these forces contribute to their creation.

In these circumstances would it be reasonable to believe, or even assume, that the working conditions which prevail in production in normal times under the system advocated by the "leave alone school," *i. e. Laissez faire, Laissez passer*, can ensure a fair and equal distribution of the national wealth produced? Empirical methods can certainly never assure to us such fair and equitable working conditions as we now advocate. In the circumstances, is the system worth supporting?

Is it possible that liberty, freedom and justice can prevail with all its virtues, when men are

obliged to work for mere subsistence wages under the system of *Laissez faire*, *Laissez passer*, and be subject to the competition of lower paid labour in less advanced countries, or to the competition from countries with higher paid labour, but which, in view of the better working conditions which prevail with them, are able to produce commodities upon a large-scale basis, and consequently upon the lowest possible basis of cost per unit of goods produced?

Again, can we consider that agricultural labour has freedom when there is land which can be put under cultivation at home, but which, owing to the working conditions which prevail, the agricultural workers are unable to work upon with profit to themselves?

We must surely all agree that freedom implies the right to live, and that, similarly, the right to live implies the right to work. Can we be certain, therefore, of the essential working conditions now suggested under the so-called system of free trade which now prevails with us, i. e. *Laissez faire*, *Laissez passer?*

Those individuals who would assert in the affirmative would certainly, in our view, be supporting a false and futile doctrine; not only that, but we believe they would retard by such assertion a solution of the difficulties which now exist between capital, management and organised

labour; and, *ipso facto*, prevent our national and Imperial industries from being developed to their utmost possible extent.

Sufficient has now been said, we think, to show the difference between the theory of American National Economy, as advocated by Reed, and the theories advanced by the Cobdenite school of thought, which in the main desires unrestricted competition so that it may have a large reservoir of labour from which it may buy its men and women cheap. Under the Cobdenite theories mere subsistence wages only are possible in normal trading conditions, because the reservoir of labour which the system ensures will secure that.[1]

As for the Marxian theories of employment and surplus values, we have already said sufficient, we believe, to afford a comparison being made by the reader.

Therefore, of the three systems we have now discussed, we think it will be generally agreed that Reed's theory of American Protection—or, in other words, his theory of National Economy—is by far the soundest from the standpoint of labour, management and capital; although we do not

[1] We have to frankly recognise that in this country business men, organised labour, and certain politicians followed certain doctrines, or political faiths, because it suited their pockets to do so. Prior to the war there was no national spirit to speak of.

personally agree with the principle of high tariffs, as it must necessarily cripple the export trade.

Prince Bismarck, in a speech delivered before the Reichstag on May 2, 1879, supported Reed's theory, and what he said of Germany is also true of Great Britain, as follows—

"One thing is clear, that through the widely open doors of its import trade, the German market has become the mere storage-place for the over-production of other countries. We must, therefore, shut our gates and take care that the German market, which is now being monopolised by foreign wares, shall be reserved for native industry. Countries which are enclosed have become great, and those which have remained open have fallen behind. Were the perils of Protectionism really so great as sometimes painted, France would long ago have been ruined, instead of which she was more prosperous after paying the five milliards than Germany is to-day. And Protectionist Russia, too—look at her marvellous prosperity! . . . The question before us is not a political but a financial one, and we should put all personal sensibility aside. Because it is my deliberate judgment that the prosperity of America is mainly due to its system of protective laws, I urge that Germany has now reached that point where it is necessary to imitate the tariff system of the United States. . . . I see that the Protective countries are prospering; the Free Trade countries are decaying."

And if we look at our economic history in perspective, who can deny the truth of the proposition advanced by Bismarck?

In so far as Great Britain is concerned, our theory is that National Economy based upon freedom of trade, *i.e.* low tariffs, is by far the best system that could be devised to meet her peculiar necessities, as she must export in order to be able to import; both are the arterial veins of the country, and contain its life's blood.

The only possible solution of the problem which now confronts us, therefore, is to distribute wealth through the medium of wages; but, as a corollary to this, it is essential, as we have more than once indicated, that, if we are to make substantial progress, the leaders of organised labour in this country should ensure or guarantee the abolition of the ca' canny policy, *i. e.* abandon altogether the theory underlying the principle of restriction of output. It is a false doctrine and stultifies progress.

But we have one more word to say to the employers in this connection by way of conclusion, and it is this: that we can see no difference between the dishonest worker who shirks his work, or refuses to render value in proportion to the extent of the wages he may receive, and a certain type of capitalist, or company promoter, who is usually on the look-out "for something for nothing."

There is a certain type of company promoter—there are always black sheep to be found in each sphere of influence—who endeavours to obtain from the public £1 in cash for a £1 Share, worth, perhaps, 12*s.* in value. In other words, he indulges in what is known as "watering of capital," and we believe it to be as essential that this evil should be considered—and, if possible, destroyed—just as much as the restriction of output by the workers. It would indeed be unfair to attack one side of the problem and leave the other side untouched.

We have much to learn from Germany in this respect, where watering of capital is discountenanced and discouraged. The leading banks in Germany will make no issues which savour of such a practice, the result being that the public get full value in return for their cash and hard-earned savings.

The watering of capital increases cost of production just as much as the restriction of output, and if we are to secure that co-operation between management, labour and capital in the future which all desire, it is very desirable that both evils should be dealt with simultaneously. It is only by holding the balance fairly that we can hope to achieve success.

ON THE DISTRIBUTION OF WEALTH THROUGH HIGH WAGES

The distribution of wealth through high wages is a subject very little understood by the general public, even among those whom it most directly concerns; and it is desirable that we should give it consideration, for it is in reality the *bête noire* of capital, management and labour. Whenever the subject is discussed it is generally assumed to mean by the wealthy classes and the manufacturers that such capital as they possess can be the only wealth from which any demand that may be formulated can be satisfied; and that any person who may support the idea of the distribution of wealth through high wages is a Socialist, or one having socialistic inclinations; and for this reason his friendship is not considered desirable.

It must be said, however, that this somewhat natural feeling has had some foundation in fact, for the legislation to which we were most accustomed to in pre-war days actually did have this result—as, for instance, the death duties; but as to whether they were designed in the best interests of the country we will consider later.

On the other hand, when the subject is discussed by organised labour it is quite clear from the reports of the debates and the speeches that are made upon the subject that they mean nothing

else but that which is indicated above; from which it may be gathered that the wealthy classes and the manufacturers are entirely justified in assuming the attitude they do. To which, in a measure, we agree.

But the fact nevertheless remains that both sides display an ignorance that is lamentable; for the simple reason that existing capital cannot be distributed without being confiscated, which is not our intention. And if it be taxed with such an ulterior motive behind it, it only means that the capital of the country is being absorbed in the expenditure of the country, which, as a matter of practical politics and economics, is unsound in theory as well as in practice.

If the laws and regulations of the nation are such as hinder the creation of wealth in a greater ratio than it consumes, the national productive power will assuredly decline; inasmuch as the degree of its productive power is merely a reflex of its financial power. It therefore follows that if the nation's financial resources are confiscated to satisfy or meet its national expenditure, its productive power must be seriously affected. And in this matter, when we speak of the nation's financial resources we speak of the capital, either liquid or fixed, which individuals and associations of individuals may respectively possess.

Therefore the nation's expenditure should be

provided for only out of the nation's revenue, *i. e.* the new wealth which it may annually create, and from no other source. And the measure of its success will very largely depend upon the skill with which it applies its collective experience, knowledge and intelligence in the pursuit of it.

When we discuss the distribution of wealth through high wages we do not discuss the distribution of liquid capital—the subjects are entirely separate in character as well as in fact; and as for the distribution of fixed capital, it would be absurd to discuss it at all, for the simple reason that we cannot cut up land, building and machinery, into small parcels for exchange purposes. Apart from this, they are the permanent instruments we use for the creation of further wealth; and if this is only borne in mind it will greatly facilitate progress in the object we are pursuing.

There are, therefore, two aspects of the question to be considered: namely, present wealth, in which is embodied liquid and fixed capital; and future wealth, from which further liquid and fixed capital is created, out of which all that is wasted or destroyed is replenished, and further additions made to existing resources. And in our present discussion it is with the latter that we are mainly concerned.

The distribution of wealth through high wages, such as we propose, must be arranged and provided

for whilst the new wealth is in process of creation. But before any satisfactory arrangement can be concluded there are two factors which require to receive consideration, particularly by organised labour, and it is a *sine qua non*, namely—

(1) The value of labour is not determined by the wages each individual workman receives, but by the efficiency of the services rendered in return for the wages received. In other words, there are two sides to the question to be considered: (i.) the labour power; and (ii.) the productive power of labour.

(2) As the distribution of wealth is best provided for through the medium of high wages, and as a corollary human welfare, the extent of the national wealth to be produced depends upon the political support which labour will give to achieve and maintain it; for the simple reason that high wages can only be paid out of the wealth which the nation can itself produce, and rests upon no other factor. Therefore, to obtain the necessary freedom by which alone the desired result can be achieved, tariff duties must necessarily be imposed upon all articles of utility that are imported, and upon which foreign labour is expended.

The tariff duties which it may be necessary to impose to secure the desired result, provided they are fixed on a basis *pro rata* to the amount which the home manufacturer contributes to the cost of

the national services and beneficent social measures, should be regarded, as in fact they are designed to be in the national system, as the barometer which registers the advance and extent of the nation's social and human well-being. Any advance which organised labour, or the general public, may seek to achieve in this direction can only be effected and maintained with the assistance of the import duties which the tariff schedules may provide. It will be obvious, therefore, to those who may care to give careful consideration to the problem, that any beneficial arrangement that may be concluded providing for the distribution of wealth through high wages ought not to be prejudiced by competition from lower paid labour in less advanced countries.

The import duties, as provided for in the national system of economics based on freedom of trade having a maximum of 20 per cent. *ad valorem*, will, in our view, achieve the result; it is this system alone which will assure of the productive power of the nation being increased, and of all dead values being made remunerative. As Reed has so very ably expressed it—

"For a nation to get out of itself or out of the earth all the wealth there is in both, it is not necessary for that nation to buy cheap or sell dear."

In other words, if native industry desires to

secure an increased distribution of the national wealth produced annually, it must first of all win, or produce by combined effort, the wealth necessary for the purpose from the material resources it possesses; and any attempt to short-cut this process by confiscating or taxing existing wealth or capital must necessarily defeat its own purpose.

There have been various meanings, or definitions, given to the term wealth. But such as have been submitted for consideration have usually been dealt with from the individual standpoint instead of from the national. An individual, or an association of individuals, may possess fixed or liquid capital, or their product—*i. e.* utilities and commodities; or, in the alternative, he, or they, may only have experience, knowledge, and intelligence which, if they be possessed of an exchangeable value, may be termed wealth. But the degree of the exchangeable value is determined by the extent of the national productive power which may prevail in the country in which the individual may live. If the national productive power in all its phases be great, the general demand for manufactured utilities and commodities of all description, and personal service, will be on a corresponding basis. On the other hand, if the individual, or association of individuals, be left to trade to the best of their own personal effort only, without the assistance of the national productive power, the exchangeable

value of their wealth, or personal services, will correspond to the price which sheer necessity will alone dictate.

The extent, therefore, to which individual welfare may prosper and progress is entirely dependent upon the laws and regulations which the State in its wisdom decrees in favour of the development of national industry, agriculture, and all the natural resources which it may control; but, subject to the national political requirements as stated aforesaid, on no account should the State restrict, participate in, or interfere with, the natural freedom of trade.

CHAPTER VII

ON AGRICULTURE AND ITS INFLUENCE ON LABOUR

It would be difficult to conceive any permanent or satisfactory solution of the labour problem which did not take into consideration the constant rise in the prices of food and food products in relation to the value of wages paid; and no survey of the position could be considered adequate which overlooked this aspect of the question, inasmuch as the sustenance of labour has an important bearing upon the whole problem. The means of subsistence is one factor, but the sustenance is another, and the two problems must be examined separately. We have already examined the first, and we shall now proceed to examine the second.

As we have mentioned on more than one occasion, costs of production of articles of utility are constantly on the decrease, due, in a large measure, to invention and improved machinery, as well as to system and better organisation in distribution; and that were it not for this fact Industry could not possibly meet the demands frequently made upon it for higher wages and taxation.

If the problem of the distribution of wealth through high wages and taxation could be determined in the office or workshop alone, it would not be so difficult of solution, inasmuch as the purchasing value of the sovereign, in so far as it concerns articles of utility, such as sewing-machines, kitchen utensils, and furniture, is on the increase, and therefore on a satisfactory basis;[1] but when we come to consider the purchasing value of the sovereign in so far as it concerns food and food products, we find it is on the decrease, and we see no reason why this should be so. It is only necessary for the Government, in our view, to give more earnest consideration to the development of our agricultural resources, and to see that more scientific methods are applied in respect thereto, to effect an improvement.

It would, perhaps, not be fair to blame the farmers entirely for the backward condition of agriculture in this country and in Ireland, since the Government are primarily at fault. Agricultural Ireland in 1850 had a population of approximately 8,000,000 souls, but it has now only a population of approximately 4,000,000, and this decrease can only be attributable to the doctrine of *Laissez faire*, *Laissez passer*. And if it is borne in mind that the agricultural population of Great Britain has been, and is still, very much in the

[1] We are here speaking of pre-war conditions.

same position, it will be recognised that drastic remedies are necessary, and the experience gained from the country being in a state of war has confirmed this point of view. There is everywhere a great shortage of agricultural products.

If a satisfactory solution of the labour problem is to be achieved it is very essential that the State shall ensure that every inch of the soil of Great Britain and Ireland which can be made available for the purpose is put under cultivation and developed in the most scientific manner possible in the interest of the community as a whole, in order that the purchasing value of the sovereign may be increased in value, in so far as it concerns food and food products.

The particular aspect of this question which has impressed us most is the extraordinary proclivity which mankind has, as a whole, to concentrate upon invention and improved methods for the production of articles of utility, and in ignoring the all-important problem, the production of food and food products; one is surely a corollary of the other. The agricultural population has been too much inclined to migrate to the great cities and towns to work in merchants' offices or in factories, presumably on account of the better wages that are paid and of the greater enjoyment to be found in the great cities and towns. But the fact nevertheless remains that the State does

not seem to have given sufficient study to this all-important question, to the meaning of poverty, or to the causes which create poverty.

The distribution of wealth through high wages ceases to be effective if the value of the circulating media decreases in purchasing value, and it seems to us that so long as this state of affairs exists we shall always continue to maintain what is now commonly known as the "*vicious circle*"—i. e. the passing on of the various problems that arise for solution from one sphere of activity to the other without any particular one in reality solving them as they arise. The various expedients which are invariably resorted to, such as the recent fifteen per cent. rise in wages conceded to the Welsh coal-miners by the Board of Trade (which ought to be regarded as a criminal offence), whilst temporarily easing the situation, in reality only aggravates the problem, which still has to be solved. The inevitable crisis will occur sooner or later.

We do not believe that any real improvement in the distribution of wealth and welfare can be effected by paying high wages to one section of labour only out of all proportion to those which other sections may receive, for it only means that the community in general must pay the cost; or at any rate that part of it which does not share in the advantage. On the contrary, we are rather inclined to the belief that if any permanent improve-

ment is to be effected it can only be achieved by increasing the purchasing value of the circulating media in preference to increasing the quantity; and this can be automatically brought about by increasing the productive power of labour in agriculture to the same intense degree as prevails in the manufacturing industries.

If sufficient scientific study were devoted to the subject of the production of food and food products we believe that the real solution would be found, and also that there need be no such thing as poverty. Although it is said that we must always have the poor with us, it nevertheless will always remain very largely a question of degree; to be poor and to be in poverty are two different states of existence.

One of the means we must employ, then, to achieve our purpose is to call to our aid the most intelligent brains that are available to assist in stimulating the productivity of the land now under cultivation by a skilful use of artificial fertilisers and in turning to account all land that is at present unproductive by the same means. We must abandon the doctrine of *Laissez faire*, *Laissez passer*, in so far as food and food products are concerned, inasmuch as it means that we have to rely upon the world in general having a sufficient surplus to send to us to satiate our wants. It should only be necessary for us to fall back upon foreign

markets in the event of our own immediate resources failing us.

The population of the world is growing rapidly, and the time will arrive when all that is grown outside these islands will be required by the native populations in the countries on which, in the past, we have relied; and the most notable instance of this in recent years is the case of the United States, which is now able to consume pretty well all that she is able to produce.

If national defence be of more importance than opulence, the proper sustenance of the population of this country, whilst it is in a state of war, can only be regarded as an essential measure of defence; and all means which pertain, or lead, to this object should be employed and made effective.

We have said that there is an intense concentration upon the improvement of methods of production in the manufacture of articles of utility, and to all inventions relating thereto; but the same intensity of concentration is not devoted to the production of the means whereby life is sustained —*i. e.* in the winning of dividends from nature.

As we have already indicated, method and organisation play a vitally important part in production. That they should play a great part in the products of any group of production needs no special argument. The farmer who tills his soil by means of his own hands and the crudest tools

reaps but a small product.[1] But the farmer who employs upon his lands, in addition to his own labour, a sufficient quantity of all the other agents —a sufficient amount of capital and business management—reaps a much greater product for himself and the other agents. Labour and capital employed upon the cultivation of agricultural products, just as much as labour and capital used in any other group or subgroup of production, create products largely in proportion to the method of their employment. And this method is determined by the farmer as a business manager, rather than by the farmer as a labourer or a tenant. Business management and ownership are, therefore, vitally important factors in agriculture. It is these factors which determine the amount of capital used upon the soil in the shape of machinery and fertilisers, which determine the kind of crop planted, and which determine the number and efficiency of the labourers employed. On every hand we see farmers who, though they toil with all of their physical energies, reap exceedingly small harvests. They do not use a sufficient amount of skill, intelligence and judgment, and these qualities are just as necessary in the group of production called agriculture as they are in any other group. In some cases it may be due to the

[1] *Principles of Wealth and Welfare*, by Professor Charles Lee Raper.

conditions upon which the farmer occupies the land. If it be on the tenancy principle he will, of course, have little inclination for energetic development.

Method and organisation are just as vitally important in agriculture as they are in industry. The farmer who employs nothing but his muscular strength, energy, and crude implements brings forth from the soil only a small product: this is termed labour power. But the farmer who makes use of capital in the shape of efficient agricultural machinery, who applies systematic research and makes use of management, intelligence and judgment, as well as muscular strength and energy, will produce valuable quantities of produce: this is termed the productive power of labour.

It follows, then, that it is only by establishing the principle of ownership that we can hope to develop our agricultural resources to their full maximum, and by so doing bring about the necessary reduction in costs of production.

There is a very interesting article by Mr. Moreton Frewen in the *Nineteenth Century* for November 1916 on the Economics of James J. Hill, and the following quotation is pertinent to the question we are now discussing—

"The world's new economics, Hill once said, will have relation not so much to the high cost

of living as to 'the cost of high living.' No community is going to be turned away without fighting and dying from a standard of living which has crystallised into habit. The mighty beast Demos we must feed not worse but always better, and how is it to be done? We must search the prairie for the answer to that question. This brought him to consider the whole theory of value. What is the unit of value? An acre of prairie land. But what sort of prairie land? Good land. But what do you mean by 'good'? What is your valuator? The bushel basket, he would say. Eight-bushel land has no economic value; twelve-bushel land has value, but twenty-four-bushel land —'now, sir, you're talking!' The communities with the twenty-four-bushel lands in vast area— the United States, Canada, Russia, far Australia— these are they who, like the saints, 'shall inherit the earth.' But what more is needed to declare and to compare value? Propinquity to market! Thus he worked it out that his twenty-four-bushel land, to be worth £32 an acre, must be within a freight distance of 36 cents a bushel from its consuming market—say Liverpool. To put a ton of wheat from twenty-four-bushel land into Liverpool at a freight rate of 50*s*., it was that which established a value of £32; which value, again, would be increased by every mechanical improvement in engines, or in fuel combustion, in better railway grades, or cheap water links. If he could be induced to believe—and he could not be—that wheat in Liverpool would ever again settle down for a long period at a lower price than 5*s*. a bushel

(40*s*. per quarter), Hill was still quite clear that 'twenty-four-bushel land' would, for meat-raising and the general purposes of mixed farming, maintain its value. Land is stationary, population and its pressure on space is increasing prodigiously; because of the cost of high living, high food prices have come to stay. Such was Hill's extremely simple theory of values. It will be interesting to see whether his confident forecast is established by the history of the next half-century. The new Canadian prairie, probably more fertile than Dakota, and certainly the recipient of more solar heat, will best test the Hill theory of land values."

It is quite clear from the above that Hill's main theme is productivity of the land, but we are not quite in agreement with his proposition that "because of the cost of high living high food prices have come to stay." On the contrary, it will have been gathered from the general observations we have made from time to time that because of the cost of high living the development of all phases of agriculture must be treated more seriously as an industrial proposition in order that costs of production may be reduced; and, as a corollary, in order that the purchasing value of the sovereign, or its paper equivalent, may be increased. This is the most important of all the problems relating to national welfare and defence, and should at all times receive the most earnest consideration of the Government.

If the same concentration and time were devoted

to cultivation and to the production of food and food products it would prove to be—or at any rate it ought to be—as profitable as the concentration and time devoted to the production of articles of utility; capital can be made remunerative in either sphere of activity; and in order to demonstrate this proposition, we submit the following comparative table for study and consideration, in so far as it concerns the development of the beet-sugar industry in Germany.

The beet-sugar industry is of particular interest in connection with the present crisis, because it is an example of an industry which received a most important impetus through the exclusion of British goods (Colonial cane-sugar) from Continental ports during the Napoleonic wars.[1]

The following figures clearly demonstrate and reflect the keen concentration devoted to the Industry by those who control it in Germany, showing that the capital employed in the industry, and presumably the wages of the labour employed, has been on an increasingly remunerative basis—

In 1840	100 lb. of beet	yielded	. .	5·9 lb.	sugar.
1850	„	„	. .	7·3	„
1870	„	„	. .	8·4	„
1890	„	„	. .	12·5	„
1910	„	„	. .	15·8	„

[1] See *First Principles of Production* (Peddie); the statistics are by Professor Percy Frankland, F.R.S.

Whilst the results indicated in the above figures are most striking and confirm the proposition we have always advanced, that costs of production are always on the decrease in so far as manufactured utilities are concerned, we get a still more striking result from the economy which has been effected in the consumption of the fuel used in the manufacture of the sugar—

1867	coal used on	100 lb.	beet . .	35 lb.
1877	„	„	„ . .	24 „
1890	„	„	„ . .	10 „
1900	„	„	„ . .	7 „

The present position of Germany in the sugar industry of the world can be appreciated from the following figures—

Total Sugar Crop, 1912–13

	Tons.
Cane-sugar	9,211,755
Beet-sugar, European (½ German)	8,310,000
„ United States . .	624,064
Total . .	18,145,819

Previous to the war the United Kingdom annually imported 1,700,000 tons of sugar (£23,000,000).

	Annually produces £	Beet-sugar on Acres.
Germany	36,000,000	1,300,000
France	13,000,000	570,000
All Continental countries .	116,000,000	6,000,000

The above figures clearly exemplify how agricultural production as a whole could be improved by similar systematic research, and by the application of improved methods such as have been bestowed on it by Germany.

If we turn our attention to the German agricultural industry as a whole, we again find the following very interesting results—

In 1871 the mean yield of beet per hectare of land was	246 quintals
In 1910 the mean yield of beet per hectare of land was	300 „

As indicating the great and progressive attention devoted to agriculture, Germany's artificial manure bills for 1888 and 1912 are highly instructive—

	1888 Tons.	1912 Tons.
Chile saltpetre . . .	225,000	650,000
Sulphate of ammonia .	50,000	500,000
Superphosphate . . .	250,000	1,800,000
Basic slag	250,000	2,200,000
Crude potash salts . .	160,000	3,000,000
Lime	—	800,000
Other manures . . .	500,000	500,000
Total value . . .		£30,000,000

The following comparison is also of interest—

USE OF ARTIFICIAL PHOSPHATIC MANURES (PER ANNUM)

England . . .	48	lb.	per	acre cultivated
France	105	„	„	„
Germany . . .	105	„	„	„

In a preface which he wrote to that most admirable paper on the "Recent Development of German Agriculture," by Mr. T. H. Middleton, C.B., Lord Selborne declares that "if agriculture had made no more progress in Germany than it has in the United Kingdom during the period 1895–1915, the German Empire would have been at the end of its food resources long before the second year of the war, and that as a matter of fact the war was being fought by it just as much on an agricultural as on a military organisation of the nation." [1]

This fact is clearly demonstrated in the paper itself, and the following very interesting statistics which are taken from it rather tend to confirm those supplied by Professor Percy Frankland, F.R.S.—

PRODUCTION ON THE AVERAGE 100-ACRE FARM OF BRITAIN AND GERMANY

"From an examination of figures relating to production, most of which are given below, the following statements would appear to be justified—

[1] To those who may desire to study the question further I would recommend the purchase of this most valuable paper, published by Wyman & Sons [Cd. 8305], price 4*d*. And also a study of the publications of Mr. Christopher Turnor, one of our great authorities on land settlement.

"On each hundred acres of cultivated land—

(1) The British farmer feeds from 45 to 50 persons, the German farmer feeds from 70 to 75 persons.

(2) The British farmer grows 15 tons of corn, the German farmer grows 33 tons.

(3) The British farmer grows 11 tons of potatoes, the German farmer grows 55 tons.

(4) The British farmer produces 4 tons of meat, the German farmer produces $4\frac{1}{4}$ tons.

(5) The British farmer produces $17\frac{1}{2}$ tons of milk, the German farmer produces 28 tons.

(6) The British farmer produces a negligible quantity of sugar, the German farmer produces $2\frac{3}{4}$ tons."

The following statistics should also prove interesting, as showing the response which the soil has made in Germany to the application of artificial manures referred to on page 188.

YIELD PER ACRE PER ANNUM

	England and Wales.		Germany.	
	1885-89.	1909-13.	1883-87.	1909-13.
Wheat (bushels) . .	29·5	31·2	19·8	31·6
Barley „ . . .	32·4	32·7	22·7	36·7
Oats „ . .	38·8	39·0	25·7	44·6
Potatoes (tons) . .	5·9	6·2	3·4	5·4
	1886-89.			
Meadow Hay (cwt.).	26·1	23·1	22·5	33·7

With regard to the observation made by Mr. Middleton as to the inferiority of the soils and climate of Germany, it need only be stated here that the increased yields shown above are due to systematic research and to a plentiful use of artificial manures; and the adoption of a tariff has, perhaps, also been helpful. The production of food in Germany is quite clearly undertaken as an industrial proposition; and we are here tempted to inquire what would have been the influence on the world's prices of wheat, other food and food products, had Germany not developed her agriculture to the extent she has. It is an object lesson in the first principles which form the basis of nationality.

Mr. Middleton proceeds as follows—

STATISTICS OF THE AVERAGE FARM OF THIS COUNTRY AND GERMANY

"If the British farmer of the nineteenth century had more technical skill, a better soil and a more favourable climate, why is it that the German now contrives to feed fifty per cent. more persons on the land he tills? Before an attempt is made to deal with the reasons it will be desirable to examine in greater detail the general conditions under which the farmers of the two countries carry on their business. The statistical notes which follow relating to the tenure of land, the arrangement of crops, the extent of the live stock industry, labour, wages, and the value of estates, are intended to

bring out the main features of the farming of each country. With the exception of the figures relating to labour, the statistics for this country are for England and Wales."

TENURE AND SIZE OF HOLDINGS

About ninety-three per cent. of the agriculturists of Germany own the land they cultivate; in England and Wales only eleven per cent. of the occupiers are owners.

The following statement compares the size of holdings in England and Wales and Germany—

SIZES OF HOLDINGS IN ENGLAND AND WALES AND IN GERMANY

ENGLAND AND WALES (1914)			GERMANY (1907)		
SIZE.	ACREAGE.	PER CENT.	SIZE.	ACREAGE.	PER CENT.
1–5 acres . .	282,980	1·1	Under 1½ acres .	898,882	1·1
5–20 ,, . .	1,366,990	5·0	1½–5 ,, .	3,429,395	4·3
20–50 ,, . .	2,636,094	9·7	5–12½ ,, .	8,262,195	10·4
			12½–50 ,, .	26,053,910	32·7
Total under 50 acres	4,286,064	15·8	Total under 50 acres .	36,644,382	48·5
50–100 acres .	4,340,952	16·0	50–125 acres .	17,053,348	21·4
100–150 ,, .	3,940,343	14·5	125–250 ,, .	6,252,010	7·9
150–300 ,, .	7,848,424	29·0	250–500 ,, .	3,748,062	4·7
Above 300 acres	6,698,221	24·7	500–1,250 ,, .	7,509,848	9·4
			1,250–2,500 ,, .	5,134,705	6·5
			2,500 acres and over	1,244,933	1·6
Total over 50 acres . .	22,827,940	84·2	Total over 50 acres .	40,942,803	51·5
TOTAL .	27,114,004	100	Total .	79,587,185	100

It has recently been stated that England has too many farms too big for men prepared to use their hands and too small for men prepared to use their heads. If we include all holdings of less than 125 acres of cultivated land as being suited for the farmer who uses his hands, and all holdings of over 250 acres as being adapted for the man who tries to use his head, then it would appear that 70 per cent. of the soil of Germany is at the disposal of the former and 22 per cent. available for the latter; thus leaving only 8 per cent. in holdings which are too large for working cultivators and too small for well-educated farmers. In England and Wales, on the other hand, only 32 per cent. of the land is divided into holdings of less than 100 acres, while no less than 43 per cent. is found in holdings of from 100 to 300 acres. Thus it would appear that the proportion of the soil of this country in holdings of a doubtfully desirable size must be about four times as great as in Germany."

The figures disclosed in the table on the next page are most interesting; they show the number of persons employed both permanently and temporarily per 100 acres of cultivated land in Great Britain and Germany respectively.

The inference to be drawn from the statistics is this, that intensity of concentration in the production of food and food products through the labour of man is like the fruitfulness of the earth itself; the more the earth absorbs of it the more does it reproduce in return.

The truth of this proposition requires very careful consideration, particularly in view of the

NUMBER OF PERSONS EMPLOYED IN AGRICULTURE

	Number per 100 acres of cultivated land.								
	Total employed in Agriculture.			Permanently employed.			Temporarily employed.		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
Average number employed on all holdings—									
Great Britain	4·6	1·2	5·8	3·6	1·0	4·6	1·0	0·2	1·2
Germany	8·3	10·0	18·3	6·2	6·0	12 2	2·1	4·0	6·1
Small holdings—									
Great Britain (5–50 acres) .	9·3	3·1	12·4	6·6	2·6	9·2	2·7	0·5	3·2
Germany (12½–50 acres) . .	8·9	8·7	17·6	7·3	6·3	13·6	1·6	2·4	4·0
Large holdings—									
Great Britain (over 300 acres)	2·7	0·4	3·1	2·4	0·3	2·7	0·3	0·1	0·4
Germany (250 acres and over)	4·2	3·0	7·2	3·1	1·7	4·8	1 1	1·3	2·4

great need for reducing imports after the war is concluded, and in creating a large home market. It will be necessary for us to produce all the wealth we possibly can within these islands in order to be in a position to liquidate the costs of the war, apart from the other considerations which we have attempted to enunciate. Though some people may not generally admit that the productiveness of the soil of Great Britain might, with good cultivation, be made greater, yet all additional stimulants will have to be applied in order that the

greatest wealth which the earth can yield may be produced, and, as a corollary, in order that the greatest amount of employment may be provided for the population of these islands.

If, as some people assert, and not without reason, a period of acute depression will exist with us after the war is over, it is obvious that the more agricultural labour we employ on the land the more will it tend to minimise it.

If for no other reason than the foregoing a greater agricultural development is essential; and if part of the wealth produced is distributed through the medium of high wages, with a guaranteed minimum of twenty-five shillings to every able-bodied man, the home demand for manufactured goods should receive the desired stimulus.

The general theory underlying this principle being that the larger the number of workers we can employ in profitable industry, whether it be agriculture or manufacture, the greater will be the individual, and hence the collective reconsumption. In other words, we shall be able to create a larger internal demand for our manufactures.

We have in the past been far too prone to measure the value of our import trade and export trade by its magnitude—we like to see large figures—forgetting all the while that the prosperity of the country depends as much, if not more so,

upon the condition and efficiency of its internal trade than upon its external; and that it is possible for the internal trade of a country to render the greatest part of its external trade unnecessary and be more wealth-productive. As an illustration take the case of Ireland. If our national system of economics were such that Ireland could again maintain a population of 8,000,000 souls as she did in 1850, instead of the 4,000,000 she maintains to-day, would it not be more in favour of our national interests to trade with this increase of population if it could be restored, as it can, than to trade with 4,000,000 people in South America? If we increased the importation of agricultural commodities from Ireland it would not only be to our mutual advantage from the point of view of exchange value, but we should be rendering an act of justice long since overdue.

"According to the natural course of things, therefore, the greater part of the capital of every growing society is, first, directed to agriculture, afterwards to manufactures, and last of all to foreign commerce. This order of things is so very natural that in every society that had any territory it has always, I believe, been in some degree observed." [1]

The great teacher's wisdom is always penetra-

[1] Adam Smith, *The Wealth of Nations*, Book III, p. 304.

ting. The moral we seek to establish is this: that we should develop our own material resources to their utmost possible extent, after which we can commence to consider the question of exchanging our surplus productions in foreign markets for those we may find ourselves most in need of.

Apart from the great question herein involved, there is another aspect of the question which ought not to be overlooked, and that is the vitality, general health, and physical condition of the population; in other words, the necessity of creating and maintaining a robust people. Prince von Bülow, in his book, *Imperial Germany* (1914), explains the reasons which led him to increase the protective tariffs in favour of German agricultural produce as follows—

"I was persuaded that vigorous agriculture is necessary for us from the economic, but, above all, from the national and social points of view. . . . Without great and flourishing agriculture by its side, industry would soon use up the best forces of the nation. . . . Agriculture is the mother of the nation's strength which industry employs."

As Mr. Middleton in his valuable paper points out, these quotations show the consideration which weighed with von Bülow—

"He appears to have been specially impressed with the eugenic argument for agriculture. He

alludes to the great fall in the birth-rate in towns, and gives some striking figures as to the effect of town life on physical vigour. He refers to a Commission appointed by himself in 1906 to inquire into the percentages of men fit for military service who came, respectively, from town and country. This inquiry showed that for each 100 men which it was estimated would be forthcoming for military service, there were supplied—

By large cities (100,000 and over) .	65	men fit for service.
By towns of 20,000–100,000 . .	83	„ „
By country districts and villages less than 2000	114	„ „

"Of the parents of men fit for service, 75 per cent. came from the country, and only 1·7 from large towns. (It should be noted that the housing conditions in many German towns are bad.)

"Von Bülow's reference to the value of a strong agriculture in time of war is also of much interest. The following sentences were probably written in 1912—

"'As in time of war, industry is dependent on the buying power of agriculture, the productive power of agriculture is a vital question for the whole nation. There are parties and groups representing certain economic interests which demand that the Government shall place a very small duty on agricultural products from abroad, or even let them in duty free, so that the price of comestibles, under the pressure of foreign competition, may be kept low, and thus the industrial workman's

expenses of living may be reduced. They want to base all economic policy on an imaginary permanent peace. Our agriculture, which has to compete, so far as wages are concerned, with the high wages paid by industrial concerns, which has to employ the most modern and expensive machinery in order to pursue intensive culture on soil that has been tilled for centuries, is absolutely unable to produce at the same price as the large, young agricultural countries, which work virgin soil and pay small wages.

"'Our agriculture needs a protective tariff. Imported agricultural products must have a sufficiently heavy duty imposed on them to prevent the foreign supply from falling below a price at which our home agriculture can make a fair profit. The reduction of agrarian duties at the time of Caprivi's commercial policy brought about a crisis in our agriculture which it was only able to weather by dint of working with stubborn energy, and hoping for a complete change of tariff arrangements within a short time. If we sacrificed the protective tariff on agricultural products in order to lower the cost of living by means of cheap imports, the danger would arise that agricultural work would grow more and more unprofitable, and would have to be given up to a greater and greater extent. We should go the way England has gone.'"

The point which now arises for consideration is whether a general protective tariff for British

agriculture on lines somewhat similar to that suggested by Prince von Bülow is possible in a country like ours, where the area of land which can be put under cultivation is a long way short of what is required.

It will always be necessary for Great Britain to import very large quantities of wheat and other cereals to satisfy the home demand, so that the circumstances which surround our particular difficulty are peculiar to ourselves alone.

Several courses are open to consideration. Mr. Middleton deals with some of them in his most admirable paper, but the best course to pursue, in so far as it concerns Great Britain, would seem to be to put a tariff only upon the key industry of agriculture—namely, the growing of wheat, leaving all other farming produce severely alone. Give the farmer a good and profitable market for the wheat he may produce, and the general reduction of costs of farming and other benefits which would accrue to him as a result would be, in our view, a sufficient protection to his industry. The farmer has a natural protection in the freight and railway rates which are payable upon all farm and other agricultural produce imported into this country, and it would be a mistake to augment this natural protection by placing import duties upon the importation of such produce. We do not, of course, include margarine

as a farm produce; it is a manufactured article, and as such should be assisted by a tariff duty.

Let us do everything that is possible to protect the farmer in his key industry, and also find him a profitable market for his produce at home, and this, combined with a keener concentration upon the development of agriculture as an industrial proposition, with the addition of scientific and systematic research, and efficient transportation services, will go a long way towards increasing the productiveness of British agriculture.

A general raising of the tariff upon all agricultural produce must necessarily defeat any solution of the labour problem which may be achieved in so far as Great Britain is concerned, because of the great shortage of land available for cultivation. It is, therefore, undesirable that an all-round general tariff should be imposed.

The substantial tariff suggested for the key industry of agriculture—namely, wheat—would have one further advantage, in that we could concede a preference on the duty payable to the Dominions and Colonies, and so pave the way towards that great Imperial Federation which public opinion now considers to be desirable.

Apart from this aspect of the question, it would also assist in the development of the attractive scheme proposed by Mr. Moreton Frewen for the establishment of a large empire farm, or farms,

in the Dominions, the proceeds of which, we believe, are intended for the benefit of the people of this country, and the capital values of which, it is suggested, should go to the Treasury for the purpose of reducing the National Debt.

There is one further suggestion which might prove to be useful as a supplement to the import duty to be imposed on wheat, or as an alternative, and that is that several elevators should be erected throughout the United Kingdom, at convenient centres, to which the farmers should be requested to send their unsold wheat, unless otherwise directed by the management. The elevators should be placed under the control of the Flour Millers' Association of Great Britain and Ireland, who should undertake to be responsible for the management of them in all respects.

There should then be an agreement between the State and the flour millers that, in return for a reasonable import duty to be imposed on imported flour, the millers would undertake to purchase all the wheat produced in the United Kingdom at current market prices, but that the price to be paid per quarter should at no time fall below a certain fixed minimum, to be agreed upon between the farmers, or their representatives, and the flour millers; the final agreement, of course, to receive the approval of the State. This is a very simple arrangement, and, with goodwill prevailing on

either side, should not be difficult of accomplishment.

In connection with this scheme there should also be created an efficient motor transport service, and special rates and facilities should also be provided by the railway companies in connection therewith; but we shall deal with this aspect of the question at a later stage when we come to deal with the general theory of transportation.

The concluding part of the problem to be solved is to set about devising means for increasing the number of small holders—*i. e.* ownerships—of land, and we cannot do better than quote Mr. Christopher Turnor, one of our great authorities on the subject—

"The Departmental Committee appointed to consider the settlement and employment on the land of discharged sailors and soldiers have issued a report on each subject; and I will not pretend to be anything but highly gratified at seeing that the Report on Settlement embodies all but one of the principles which I stated before you last year to be essential features of successful land settlement.

"This one essential feature, which the Committee, on their part, assume not to be essential, is that of ownership. Indeed, they frankly declare against ownership, and substitute for it the principle of tenancy. They give us many reasons for their choice, but omit the most powerful reason of all against such choice: that of universal experi-

ence. Wherever we study the science and practice of successful settlement, ownership is invariably one of the fundamental principles deliberately adopted. Denmark provides quite a striking illustration of this point. Two generations ago the percentage of the owners and tenants of Danish soil was as 12 to 88—exactly as it is with us this day. But the Danish people set themselves the task of redressing what they perceived to be a wrong principle; and to-day, as the result of a wisely conceived land policy, the proportion is exactly reversed: 88 owners to 12 tenants. In several of our Dominions we can observe a similar process; their respective Governments at first adopted the principle of tenancy (leasehold), but very soon substituted for it the principle of ownership.

"In stating this fact, I am by no means intending to say that successful colonisation is not possible under a system of tenancy if all the other fundamental principles of settlement are observed: I merely wish to record that, so far as I am aware, there is no evidence available which either proves or disproves this theory; but that the evidence in favour of the principle of ownership is overwhelming.

"Indeed, the very failure of small ownership in this country is a proof of the general principle. For what happened? A hundred years ago Arthur Young told us that ownership had the magic power of turning sand into gold. What he ought to have said is that ownership is one of the essential features in a process which turns 'sand into gold'

(*i. e.* renders unproductive land highly productive). But in that case we should have got a simple scientific statement instead of a dazzling phrase, in which even to-day about one-half of the nation can see nothing but good and the other nothing but bad. Indeed, the idea of tenure became with us an obsession. All reform was looked at from the point of view of tenure; and we have ever since acted as if a part were more important than the whole.

"About the time that Young coined his phrase, Davy laid the foundation of the great Law of the Minimum in Plant Production. In its completed modern form it states that there can be no growth until all the factors of growth are present; and that the quality and quantity of growth is determined by that factor of which the smallest amount is available. For though there may be enough sunshine, and water, and mineral salts to make an eight-quarter crop of wheat, if there is only enough nitrogen in the soil for making a four-quarter crop, a four-quarter crop is all we shall get.

"One of the chief objections to the further extension of the system of small holdings raised by these critics is that the life of the small holder is very hard. At the best, we are told, it is an existence of ceaseless drudgery performed for a mere pittance. The pathetic description would impress one more if it did not invariably come from persons whose motives cannot be regarded as disinterested, seeing that the critics are farmers, or the spokesmen of the farmers or landowners.

Of course, there is no doubt that the small holders' struggle for success might be made much easier. As I pointed out last year, the result of our amateurish treatment of a scientific process is that our small farmers have to bear burdens which a rational treatment in other countries has long ago lifted from the shoulders of their small farmers; and it is this very feeling of injustice to our own people and the recognition of the duty to lighten their burdens which has inspired the Committee Report and given us the first instalment, as I hope it to be, of a national land policy—perhaps even of an Imperial policy. But, when all is said and done, there remains the fact that our 291,000 small holders seem to be uncommonly fond of the life. Moreover, as the demand for small holdings was far from satisfied at the beginning of the war, it seems as if thousands of other men were exceedingly anxious to share a life, the hardships of which they were implored by leaders and farming papers not to undergo.

"The other chief argument is that 'the small holdings movement is already overdone.' Now, it is quite true that there are almost twice as many small holders as farmers. The Board of Agriculture Statistics tell us that in England and Wales there are 291,000 small holders and 143,000 farmers; in the proportion of two to one. But these statistics tell us something else: that the 14,000 large farmers—that is, men holding over 300 acres—hold 2,500,000 acres more than all the 291,000 small holders put together. We are, therefore, neither entitled to say that the Small Holdings Movement is 'overdone,' nor to deny

that there appears to be room for a very considerable increase in the number of small holdings.

"But before we can reasonably take steps to extend the existing area under small holdings, we must first of all give up pretending that our amateurish method of 'providing small holdings,' as it is called, can take the place of a rational system of land settlement any more than gambling can take the place of sound business. Indeed, one of our first tasks should be to create more favourable conditions for the existing 291,000 small holders, and make them more economic units than most of them are under the existing unfavourable conditions."

Mr. Turnor advances the case in favour of small ownership of land in a most lucid and eloquent manner.

But we would go further than Mr. Turnor, and say that an agricultural labourer should either be paid a reasonable minimum wage for his labour or be given reasonable facilities for acquiring such land as he may require. But the principle of inducing a man to gamble with the value of his labour, such as is involved in his becoming a tenant farmer, is atrocious and should not be permitted. Apart from the injustice involved in the system, it cannot be expected that the tenant will develop his land and general industry to its utmost extent beyond what is necessary to maintain his existence and that of his family. On the other hand, ownership will ensure that he will do so not

only in his own interests, but in the national interests.

If the principle of tenancy were prohibited by law it would get rid, once and for all, of the theory of rent.

It may be argued, of course, that there is no difference between leasing land and leasing a factory or a house. But there is a very great difference, inasmuch as in the first case the dividends which have to be won from nature depend as much on climatic conditions as on physical and mental ability; whereas, in the second case, physical and mental ability only count in the final result, and no further speculative element intervenes. Then, again, the landlord of a factory or a house can only demand a rent consistent with the rate of discount at the Bank of England; whereas the landlord of the land will usually charge a rent consistent with the wealth, or profit, which the farmer can produce from the land, and no other consideration weighs with him.

The more enterprising a farmer may be, therefore, the more rent will he have to pay; and it is this restriction, or penalty, on the thrift and enterprise of the farmer which must be destroyed if national welfare is to be advanced.

"Rent, considered as the price paid for the use of land, is naturally the highest which the tenant can afford to pay in the actual circumstances of

the land. In adjusting the terms of the lease, the landlord endeavours to leave him no greater share of the produce than what is sufficient to keep up the stock from which he furnishes the feed, pays the labour, and purchases and maintains the cattle and other instruments of husbandry, together with the ordinary profits of farming stock in the neighbourhood. This is evidently the smallest share with which the tenant can content himself without being a loser, and the landlord seldom means to leave him any more. Whatever part of the produce, or, what is the same thing, whatever part of its price is over and above this share, he naturally endeavours to reserve to himself as the rent of his land, which is evidently the highest the tenant can afford to pay in the actual circumstances of the land. Sometimes, indeed, the liberality, more frequently the ignorance, of the landlord makes him accept of somewhat less than this portion; and sometimes, too, though more rarely, the ignorance of the tenant makes him undertake to pay somewhat more, or to content himself with somewhat less than the ordinary profits of farming stock in the neighbourhood. This portion, however, may still be considered as the natural rent of land, or the rent for which it is naturally meant that land should for the most part be let.

"The rent of land, it may be thought, is frequently no more than a reasonable profit or interest for the stock laid out by the landlord upon its improvement. This, no doubt, may be partly the case upon some occasions; for it can scarce ever be more than partly the case. The landlord demands

a rent even for unimproved land, and the supposed interest or profit upon the expense of improvement is generally an addition to this original rent. Those improvements, besides, are not always made by the stock of the landlord, but sometimes by that of the tenant. When the lease comes to be renewed, however, the landlord commonly demands the same augmentation of rent as if they had been all made by his own." [1]

The earning capacity of the farmer, as is the case with all individuals, is the difference between the cost of the commodity he is able to produce on, and from, his land, or other equivalent services, and the ultimate price he is able to obtain for it on the market.

At the end of each year the profits which the farmer may show in his balance sheet represent his earning capacity, or power to save, and the degree of his success depends very largely on his skill and business management. The whole success of agricultural development, therefore, or any other industry, hinges very much upon this fundamental factor; but if the profits earned by the farmer be absorbed by the landlord in the form of rent it must necessarily destroy the economic foundation upon which the welfare of the agricultural industry is founded; and also the Industrial activity of the country in general.

[1] Adam Smith, *The Wealth of Nations*, Book I, chapter xi, pp. 127–8.

That the whole system requires modification may be gathered from the very interesting table of statistics published by Sir Leo Chiozza Money in the *Westminster Gazette*, May 31, 1916. The failure of the farmer to increase his wheat production to correspond with the rise in price, as indicated in the table, is, in our view, entirely due to the leasehold system; the farmer has no further interest in an increase of production beyond the means necessary for his subsistence. And a protective tariff alone will not alter the position.

"It might have been imagined that the rise in prices would have a considerable effect upon the British wheat acreage. That has hardly proved to be the case, as the following table will testify—

UNITED KINGDOM: WHEAT ACREAGE AND WHEAT PRICES

	Acres under Wheat.	Price of British Wheat per Quarter. s.	d.		Acres under Wheat.	Price of British Wheat per Quarter. s.	d.
1892	2,299,000	30	3	1904	1,407,000	28	4
1893	1,955,000	26	4	1905	1,836,000	29	8
1894	1,980,000	22	10	1906	1,801,000	28	3
1895	1,456,000	23	1	1907	1,665,000	30	7
1896	1,734,000	26	2	1908	1,665,000	32	0
1897	1,939,000	30	2	1909	1,868,000	36	11
1898	2,158,000	34	0	1910	1,858,000	31	8
1899	2,055,000	25	8	1911	1,952,000	31	8
1900	1,901,000	26	11	1912	1,972,000	34	9
1901	1,746,000	26	9	1913	1,791,000	31	8
1902	1,773,000	28	1	1914	1,906,000	34	11
1903	1,621,000	26	9				

"In 1895 the record low prices of 1894 drove the wheat acreage down to 1,456,000. With recovery of price the acreage recovered to over 2,000,000 in 1898–9. Then prices again fell, and in 1904 the acreage fell to the low record of 1,407,000. During the next ten years prices rose considerably, and there was a recovery in the year when war broke out to 1,906,000 acres, the price of wheat then being 34*s.* 11*d.* Even so, the wheat acreage of 1914 was nearly 400,000 acres short of 1892."

The great and leading principle to be achieved in the economic development of agriculture, upon which in reality all industrial activity is founded, is to assure to the farmer all the wealth which his own energy and enterprise creates; and it is only by establishing the principle of ownership that it can be assured. This reform will prove to be a pressing necessity after the war, as the purchasing power of the community will be considerably reduced as compared with pre-war days, and all legitimate and beneficial measures should be employed, such as is now proposed, to assist in stimulating it to greater activity.

By way of conclusion it is perhaps desirable that we should draw attention to the translation of a chapter taken from a work by Count von Schwerin-Löwitz, entitled *Deutschland unter Kaiser Wilhelm II*, published in Berlin in 1914, which appears

in Mr. Middleton's paper on the "Recent Development of German Agriculture."

The following quotations from it are submitted for consideration, and if it were only possible for the Government to imbibe some of the spirit or mentality which they suggest, in so far as the United Kingdom is concerned, we should be inspired with hope for the future. The results which have been achieved by Germany in the development of her agriculture have been most remarkable, and if we had a stronger national willpower, it should be possible for us to produce equally good, or better, results in this country—

"We turn now to the still more important question, from the national point of view, of the development of Germany's total agricultural production.

"One of our most important banks, the Dresdner Bank, recently submitted to the members of the Reichstag a remarkable pamphlet, entitled, 'The Economic Strength of Germany.' The following statement is contained in this pamphlet, the authors of which cannot be regarded as being in any way biassed in favour of the agrarian interest—

> "'The results of the harvest show that Germany, in spite of her great development as a manufacturing country, still has a place among the great agricultural countries of the

world—a place which is due to the extraordinary advance in the methods of intensive culture practised by her farmers. In this matter Germany stands at the head of all the purely agricultural countries, a result which must be regarded as all the more wonderful when it is borne in mind that the quality of the land and soil in Germany is very much inferior to those of other agricultural countries. The favourable results of the harvests in Germany are due to the widespread use of scientific methods of farming, to the constant extension of agricultural education, and to the increased use of artificial manures. Germany uses as much potash as all the other countries of the world taken together. An estimate of the yearly value of her production of the three staples—corn, meat, and milk—gives a sum of nearly five hundred million pounds sterling.'

"This estimate of the total value of Germany's agricultural produce as regards these three items is dealt with in more detail in another part of the pamphlet, and the following figures for 1912 are given: Corn, £140,000,000; meat, £200,000,000; and milk, £137,500,000; that is for all three, in 1912, £477,500,000, *or nearly £500,000,000.*

"These figures are well worth attention, and correspond closely with those obtained by other well-known statisticians.

"This figure of five hundred million pounds does not, however, by any means represent the

total money value of Germany's agricultural production. To obtain such a figure it would be necessary to include the money value of the potatoes, vegetables, and fruit used as human food, the potatoes used in making spirit and starch, beet used in the manufacture of sugar, crops producing oil and fibre, the grapes used in making wine, poultry and fish, and, in addition, the produce of the forests in the form of wood and game. For most of these, reliable estimates as to their total amount and value are not available, but they must all be counted as part of the total agricultural production, and they represent a considerable value in money.

"I think that all who read without prejudice what I have herein stated will agree with me that, in spite of the extremely difficult and critical position in which German agriculture was placed in the first years of the reign of Wilhelm II, it was able to collect its strength and make a determined endeavour, by the full use of the new advances in agricultural technique and improved methods of cultivation, not only to overcome the difficulties which beset it, but also to carry out more fully the duty which it owed to the Fatherland of producing to the greatest extent possible the food required by the German people. And it may well be said that these endeavours have been rewarded with visible success; as regards technical methods, German agriculture stands to-day—as stated in the brochure of the Dresdner Bank, referred to above—unchallenged at the head of all the agri-

cultural countries of the world. This is sufficiently proved by the fact that, in spite of the poor quality of our soil and the unfavourable nature of our climate, our corn crops show a yield, acre for acre, considerably greater—more than thirty per cent.—than those of all other agricultural countries.

"Nothing could, however, be worse than for our farmers to believe that they may rest satisfied with the honours already gained, thinking that they have attained the summit of technical perfection, or that the view should be taken that, economically speaking, the highest possible production per acre has already been reached. The opposite view is the right one. At the present time in almost all branches of agriculture—in the proper use of artificial manures, the choice and breeding of seed, the use of machines to economise labour, the rational use of feeding stuffs, the improvement of our breeds of live stock, and the drainage and cultivation of our moors and waste land—we only stand at the very beginning of a full and universal employment in the practice of agriculture of the great scientific and technical advances which have been made during the past fifty years. It is a matter of common knowledge that these discoveries and improvements have not been adopted generally by the small farmers, by whose hands the greater part of German agriculture is carried on. To bring the results of recent advances in knowledge home to these farmers is the great task which our system of agricultural education will have to carry out in the near future.

Although in the last twenty-five years there has been a considerable increase (they have been approximately trebled) in the number of our agricultural schools, we stand in this respect, too, at the beginning of what must be done. The scientific and technical improvements have been evolved, and they only need to become known and put into practice by all, or at least the majority of our farmers in order that the *great aim of our agricultural policy—the production at home of all our food—may be attained.*"

The italics are ours. But in these last few words is to be observed the basic principle upon which the whole German policy of nationality is founded. German intellect has shown a much greater appreciation of Adam Smith's dictum, "Defence is of more importance than Opulence." This basic principle permeates the whole of their national policy, both as regards industry, agriculture, and transportation; and it is entirely due to this studious application of it throughout all phases of their national life that we now experience the extraordinary offensive and defensive powers of Modern Germany.

In other words, German intellect has been quietly developing the substance whilst we have been chasing the shadows. Let us hope, then, that the future may show our determination to profit from the experience gained by the nation being in a

state of war, and that we may see a revolutionary change in our general mentality towards the doctrine of nationality. We have the inherent qualities if we would but exercise them. As Bacon has so wisely said, "He that will not apply new remedies must expect new evils. It were good, therefore, that men in their innovations follow the example of time itself; which indeed innovateth greatly, but quietly, and by degrees scarce to be perceived. Time is the measure of business as money is of wares."

CHAPTER VIII

ON THE GENERAL THEORY OF TRANSPORTATION

We now come to the final, though not the least important, of the problems that require consideration—namely, transportation. As no individual producer can live unto himself, it similarly follows that no phase of industrial activity, whether it be in industry or agriculture, can exist by itself. Although an individual may retain his own individuality, he is nevertheless surrounded by other individuals, and this same principle applies to all groups or sub-groups of activity.

In any consideration, therefore, which we may give to agricultural or industrial questions, it is necessary to bear in mind the fundamental importance of transportation and its ultimate influence upon them.

The transportation and storage in elevators of wheat, and the transportation of other farming produce to markets, is to the farmer, as it is also to the manufacturer, a most vitally important problem. Transportation is not only a fundamentally important element in our economic or

business life, but it is also a producer of wealth. The railway company in transporting all natural materials to manufacturing centres performs a service essential to our economic life, inasmuch as the natural materials may subsequently go through various forms of development such as to advanced material, then to finished material, and finally into manufactured utilities. In their various stages of development it may be necessary to transport them from one factory to another to go through a process of development peculiar to the factory which may purchase them.

Transportation, therefore, is not only rendering a valuable service, but it is also assisting in creating value to the materials. It has transported the materials from a manufacturing centre in which the demand for them is perhaps small, to a manufacturing centre where the demand for them is perhaps considerable. Without the services of the transportation companies, therefore, exchange values could not be created nor maintained, and this applies equally to natural materials, advanced materials, finished materials, or manufactured utilities, as well as to agricultural produce. It is the facility with which utilities and commodities may be delivered to the consumer which creates the demand and so maintains industry in activity

[1] *Principles of Wealth and Welfare*, Professor Charles Lee Raper.

to a greater or lesser degree; similarly, it is this facility which enables exchange values to be maintained, and which in turn stimulates further demand.

From this it will be gathered that the services which the transportation companies render in production are just as important as the services which are rendered by capital, management and labour. They facilitate the bringing together of the producer and the consumer, and are consequently one of the greatest means of economic progress in civilisation. This proposition applies with equal force to motor transportation as to railway and shipping transportation.

It is the great importance which transportation has upon exchange values which renders it necessary to consider the charges which the railway companies and shipowners make for the services they render. It obviously follows that if these charges be high, the facility with which utilities and commodities can be exchanged decreases; if, on the other hand, the charges that are made be low, or reasonable, and conform in practice to the charges which are made in other competitive nations, the facility with which utilities and commodities may be exchanged increases; by reason of the fact that the area of distribution becomes widened owing to the greater distance to which this merchandise may be despatched in consequence

of the lower rates. In other words, the ultimate cost to the consumer, including cost of delivery, will always remain the determining factor with him in the placing of orders.

In our study of the economic life of Ireland we have found this to be the main difficulty from which it suffers. The transportation facilities—*i. e.* railway and shipping—which it now possesses are totally inadequate to the needs of the country; these are not half so good as those that exist between any of the Scandinavian countries and Great Britain. Yet there is no technical reason whatsoever why Ireland could not supply us with the commodities we now feel we are obliged to purchase in Norway, Sweden, Denmark or Holland, if our national will were so disposed.

If the services rendered by the transportation companies, therefore, are not efficient and reasonable, in so far as charges may be concerned, our economic life will remain stultified in its progress; and there are many people who argue, and not unreasonably, that the backward condition of our agricultural industry is mainly attributable to the present inefficient services which are rendered, both as to transportation and storage facilities, by the British railway transportation companies, as compared with the services which are rendered by foreign railway companies to their respective nationalities.

The modern tendency everywhere is towards a greater specialisation in the production of utilities and commodities, and, *ipso facto*, towards greater and more extensive exchange of these same utilities and commodities; but this tendency, or development, mainly if not wholly, depends upon the efficiency of the services rendered, and the charges made in connection therewith, by the transportation companies.

James J. Hill once said that "transport is being strangled by its own increase"; but as the transportation services of the country are its most vital and fundamental economic force, it is essential that they should be efficiently managed, and that the management should, by every possible means, always endeavour to anticipate the future requirements and needs of industry and agriculture, in so far as transport may be concerned.

On the other hand, there are certain traders who expect unreasonable services from the railway companies by despatching small parcels, each of which is expected to be delivered that day or the next morning without fail. There is a large quantity of this traffic, and it may be due to this that the British system has grown up on lines which are known to be peculiar to itself; but to whatever it may be due, it will be necessary for railway managers to reconsider the general theory of transportation and conform, in so far as it may be

possible, to modern economic practice—*i. e.* transportation in bulk, and at the lowest possible rates consistent with the capital invested in the business. The design of the average freight wagons on British railways, and the method of shunting them for discharging their loads, appear to us primitive and crude. There seems to be plenty of scope for some creative and inventive genius to introduce more businesslike arrangements.

There can be no complaint with regard to the locomotives employed, which seem to embody the latest mechanical science, since their hauling capacity and general cost of maintenance has improved by at least fifteen per cent. The weakness appears to be in the handling and design of the trucks, and in the general method of distributing the goods that are conveyed by them.

Commerce, the business of the merchant, may be defined as the instrument which brings the producer and consumer together; which exchanges manufactured utilities for commodities between one phase or the other, or, in each separately; and the goods—*i. e.* utilities and commodities, which thus pass through the hands of the merchant are classified by him as merchandise; but transportation is in reality the means which effect these objects; and whilst these aspects may be separated in our discussion, and to an extent in actual busi-

ness, they are nevertheless very closely and vitally allied to each other.

Similarly, the development of our Foreign Exchanges would be equally impossible without the requisite transportation facilities, and, *ipso facto*, transportation without a system of exchange would also be impossible. It is these factors co-operating together which facilitate the distribution of merchandise abroad and the importation of the necessary materials essential to their production.

We will now proceed to examine the rates charged by the British railway companies for the transportation of merchandise per ton per mile, as compared with those charged in foreign countries. The following figures are taken from the work by Mr. Slason Thompson, Secretary of the Railway Managers' Association of Chicago, and are, no doubt, authoritative—

	d.
United Kingdom	1·192
Denmark	0·956
Norway	0·867
France	0·726
Germany	0·637
Holland	0·590

The above figures indicate how manufacturers and farmers in the United Kingdom are handicapped by the higher cost of transportation which they have to pay as compared with their competitors in foreign countries; it would, perhaps,

be advisable if the railway managers were to investigate the problem and see what could be done towards assisting the manufacturers and farmers in the matter of conceding lower rates.

The only means by which they can perhaps do this is to secure keener business management, intelligence, and enterprise in the management of their respective railway companies, and by reducing their transportation charges to conform more to the rates which are payable by manufacturers in foreign countries; if there are any other difficulties in the way they should be frankly stated, in order that they may be considered by the public.

It has been stated by Mr. A. W. Gattie, in a lecture before the South Eastern & Chatham Railway Research Association, that during the last forty years the expenditure of the British railway companies has increased by two hundred and ninety per cent., and that receipts have increased by only two hundred per cent. A great deal of explanation is no doubt required to explain this excessive rise in expenditure, but if British railway management had been on a sound basis, and had conducted its business more in accordance with modern economic practice, we believe that a large proportion of this expenditure could have been saved.

We have heard a great deal of late of the need for a Goods Clearing House System, and if the information which is conveyed in support of the

scheme is in any way justified, this would seem to us to be a direction in which the managers of the railway companies may usefully turn their attention as a means of reducing the general cost of transportation.

A large proportion of the increased expenditure referred to above appears to be incurred at the goods terminals. Mr. Gattie describes a terminal as a point of arrival and departure, and suggests that it should be placed where one journey ends and another begins. Thus, supposing a load of merchandise has to travel from one railway to another, the terminal should command both, so as to facilitate its progress. The load, not the wagon, should be transhipped in bulk from one system to another. In his opinion there would be no waste of time, or space, or labour, and no damage to goods or rolling stock. Whereas, by shifting the truck as well as the load a great amount of energy is wasted, and an enormous amount of empty wagon haulage involved.

The same authority is of the opinion that the railway companies do not make sufficient profits out of their terminals, and that the high charges which are made by British railway companies for the transportation of merchandise is mostly absorbed in the handling of the goods at the terminals.

The following particulars have been taken from

Mr. Gattie's lecture, and are most instructive and illuminating—

"How a Load of 4½ Tons of Goods would travel from London (Edmonton) to Nottingham via the Clearing House, and the Cost of Transport of same.

	£	s.	d.
(1) From Edmonton to the Clearing House by Motor Lorry, by road, 4½ tons hauled 7 miles = 31·5 ton miles at 1*s.* per ton mile of goods . .	1	11	6
(2) From the Clearing House to Nottingham by rail. 4½ tons of goods. 1 ton container. 6 tons railway wagon. 11½ tons hauled 125 miles = 1437·5 ton miles at ¼*d.* per ton mile, goods and tare .	1	9	11
(3) From Nottingham Station to Nottingham by road, 4½ tons hauled half a mile = 2¼ ton miles at (say) 2*s.* 6*d.* per ton mile of goods . . .	0	5	7½
Clearing-House toll covering transshipment charges at both ends, 4½ tons at 5*s.* per ton . . .	1	2	6
Hire of Container at 4*d.* per hour for 12 hours	0	4	0
	4	13	6½
Margin on which to compete with Motor Lorry haulage . . .	8	6	5½
	13	0	0

"The total cost of sending these goods by railway would have been £14 11*s.* 0*d.* The work

done could be done for £4 13*s.* 6½*d.* at a big profit. There are four railways running to Nottingham, and therefore the route is fairly competitive, and £14 11*s.* 0*d.* is the total cost, and forty hours the time required. Via the Clearing House the time would be about six or seven hours.

"In this instance, the gross terminal loss discovered is £9 17*s.* 6*d.*, or over £2 per ton."

Mr. Gattie believes that the real remedy is for the railway companies to load and unload in bulk, and he proceeds as follows—

"Let us now examine the result of terminal inefficiency.

"You all know that, despite your density of traffic having almost doubled during the past fifty years, and, despite improved efficiency and tractive power of the locomotive, your expenditure has increased in far greater ratio than your gross receipts.

"Under ordinary circumstances the increase in expenditure of a growing business should be in a decreasing ratio to the increase of the gross receipts.

"Had terminal organisation kept abreast with increase of traffic, the ratio of expenditure to gross receipts would have fallen instead of having risen. I say that, although we must bear in mind that it has been pleaded that dead-weight haulage of passenger trains has in some cases quadrupled. An appeal to figures conclusively proves that haulage

is not responsible for railway losses, and it certainly does not touch goods traffic.

Under the circumstances I am going to lay before you, I do not think it unreasonable to postulate that the ratio might have fallen from 47 per cent. in 1860—the days of iron—to 33 per cent. in these days of steel. If that supposition is justified, we should have a railway expenditure of about £40,000,000 per annum instead of about £80,000,000 per annum.

"This diagram shows that the expenditure from 1869 to 1912 has increased 290 per cent., which is coincident with an increase of 201 per cent. in the gross receipts. As against this, I have seen it stated that this abnormal increase of expenditure is due to three causes—

1. Increased demands of labour;
2. Increased cost of material;
3. Increased taxation.

"Unfortunately, this explanation is hardly in accord with facts. This half-truth has done a great deal of harm, because it has obscured the real solution of the problem.

"It is quite true that the cost of some materials used by railways has increased; in others it has remained steady, and in yet others it has greatly decreased. Steel is one of the chief materials used by railways, but from the particulars I have given it shows a drop in price from £78 per ton to £12 per ton.

"When you remember that rails are made of steel, and the tyres and axles are made of steel, and the bridges and stanchions and buffers, and springs and boiler-plates, and when you bear in mind that, together with this enormous drop in price, there has been a considerable improvement in quality, and consequent durability, you will realise that the real decrease in the cost of this material has been prodigious.

"*Cheap steel ought to have meant cheap transport, but lack of organisation neutralised its benefits. Cheap steel, plus the work of the modern locomotive engineer, has given us cheap haulage. Cheap steel, plus the work of the modern electrical engineer, can give us cheap terminals. With cheap haulage and cheap terminals, you have cheap transport.*"

The italics are ours. We have no interest whatever in Mr. Gattie's scheme for a Goods Clearing House System beyond the economic aspect of it, nor are we acquainted with the gentleman; but it cannot be denied that his logic is sound, and is strongly supported by reasoned statements.

It has been said that the reason for the higher charges made by British railway companies for the transport of merchandise is due to the increased cost of labour, material, and coal. But from the particulars which have been submitted this statement is not, in the main, justifiable.

The same argument could be applied to all industrial establishments, but it is common knowledge that the ratio of expenditure in all successful companies decreases with the increase in turnover, and it is only reasonable to assume that these same principles should be applicable to railway companies. At any rate, foreign railway companies seem to occupy infinitely superior positions, if the measure of their success be reflected in the rates which they charge for transportation of merchandise per ton per mile, and there can be no reason for any one to assume that railway enterprise in the United Kingdom is an industry peculiar to itself.

On the other hand, we prefer to appeal to the patriotism of the gentlemen who control the railway transportation companies in the United Kingdom to use their influence towards introducing vitality and keener business management into the administration of their respective organisations, so that the economic development of manufacture and agriculture may not be stultified in their progress. Should this fail, it may then be necessary to consider the question of the nationalisation of the railways in order to obtain the desired result. It may be, of course, that the present failure of the railway managements is due to over capitalisation; but even for this there is a remedy if they desire to seek one—namely, an

all-round reduction by writing off such capital as is not represented by tangible assets.[1]

[1] We take the advantage of an opportunity of adding the following from the preface to Frederick List's *National System of Economy*. It is by Mr. Matilde, and he informs us that as a promoter of railroads few could have done more than List. The discovery by List of the coal mines of Tamaqua, and the construction of the railroad connected with it, gave a vigorous impulse to his studies on public economy. In this connection List wrote as follows : " I have not hitherto comprehended the importance of ways of communication, except according to the theory of values ; I had not noticed their results except in their details, and with regard to the extension of markets, as well as to the diminution of the prices of material products. Then I commenced to consider them in view of the theory of productive power, and in their collective action as a national system of communications, consequently in relation to their influence upon the moral and political existence, upon the social connexions, the productive forces, and the power of nations." For his labours in this respect, and in others, Germany, wrote Matilde, owes him a debt of gratitude.

CHAPTER IX

ON THE RELATIVE SYSTEMS OF POLITICAL ECONOMY AND NATIONAL ECONOMICS

We have deemed it advisable to write a concluding essay to this work, for reasons which have been stated in the Postscript at the beginning of the book.

It is necessary to refer to Frederick List's National System of Political Economy, inasmuch as the principles which it contains are very similar in character to those we have enunciated: the difference being, however, in the method of application, which will, no doubt, be generally recognised as being the essence of any scheme or idea.

But, apart from this aspect of the question, it affords us an opportunity of concluding with a general summary of what we have written, defining, as far as may be possible in the limited time and space we have at our disposal, the term political economy, and also giving a definition of our own system of national economics based upon freedom of trade.

As List states in his introduction, no branch of political economy presents a greater diversity of view between men of theory and men of practice than that which treats of international commerce and commercial policy; but to those students who desire to study "national economics" we would recommend a perusal of *The Wealth of Nations*, by Adam Smith, and *The National System of Political Economy*, by Frederick List,[1] as being the only two works worth studying. As Mr. Matilde, the translator of List, has said, "They offer a mode of reconciling theory with practice, and render political economy accessible to every cultivated mind; a science which has hitherto, by its pompous, scientific phraseology, its contradictions, and its vicious terminology, defied comprehension and resisted common sense."

There is one mistake which List has made, however, and that is that he has misinterpreted Adam Smith; but the error is not one peculiar to him alone—it is, unfortunately for Smith, more or less a universal one. On page 102 List has the following—

"But how and why could a mind so penetrating abstain from so interesting and fruitful an investigation? The only motive we can suggest,

[1] We recommend the American translation, as the student will then have the benefit of the notes and preliminary essay by Stephen Colwell, which are most excellent.

was that it would have conducted him to results little suited to confirm his principle of absolute free trade. He could not have failed to perceive that, after free trade with the Hanseatic cities had raised English agriculture above its early imperfections, the restrictive policy adopted afterwards by the government had raised England at the expense of the League, of the Belgians, and of the Dutch, to undisputed manufacturing and commercial supremacy.

"It appears that Adam Smith was unwilling to know or to admit these facts; they belonged, apparently, to that class of stubborn events which J. B. Say confesses to have been rebels to his system."

Now, throughout the whole of the *Wealth of Nations* there is not to be found an expression such as List would attribute to Smith—namely, "absolute free trade"; but we do find expressions such as "freedom of trade" and "the importation of foreign goods," both of which expressions, and their meaning, have no relation whatsoever to "absolute free trade." Smith, as we have more than once stated, was not an advocate of free trade, but an advocate of "national economy based on freedom of trade," and the principles he enunciates favour that view.[1] The spirit of his doctrine was that individuals should

[1] For further reference see page 12 herein.

be left to pursue their own interests and trade in their own way, so long as they conformed to the rules of justice, *i. e.*, in other words, laws and regulations. If, therefore, his work was studied from this standpoint its greatness would be more appreciated.

It will, however, be obvious that the moment an economic science becomes subject to laws and regulations it follows a system which is inconsistent with the principles underlying the doctrine of *Laissez faire, Laissez passer.*

Although it is well known that Smith took a keen interest in the work of the physiocrats, yet it is quite clear from his writings that he refused to come under their influence entirely, inasmuch as he stipulates that "defence is of more importance than opulence," and that "it will generally be advantageous to lay some burden upon foreign for the encouragement of domestic industry, when some tax is imposed at home upon the produce of the latter. In this case it seems reasonable that an equal tax should be imposed upon the like produce of the former. This would not give the monopoly of the home market to domestic industry, nor turn towards a particular employment a greater share of the stock and labour of the country than what would naturally go to it."

It should be remembered that at the time Smith wrote his great work on the *Wealth of Nations*

he was directing his attention to the destruction of the mercantile system, the essence of which was high tariff duties, absolute prohibitions, and the granting by the State of monopolies and privileges to certain companies for exploitation.

Smith, in his wisdom, was far too astute not to realise that it was impossible for him, in laying the foundations of a new national system, to lay down the definitive lines along which it should ultimately proceed. Nor could any one, having regard to the primitive condition of the science, and for that matter of all other sciences, reasonably expect him to do so. Smith, in our view, exhibited very great wisdom in mainly concerning himself with the development of his first principles and of that great discovery, the division of labour; he would have indeed been superhuman had he been able to perceive the full scope of that discovery, or pursue it to its logical conclusion. That Smith was exceedingly cautious in this respect may be gathered from the preface which he wrote to the third edition of his great work, as follows—

"The first edition of the following work was printed in the end of the year 1775 and in the beginning of the year 1776. Through the greater part of the book, therefore, whenever the present state of things is mentioned, it is to be understood

of the state they were in, either about that time, or at some earlier period, during the time I was employed in writing the book. To the third edition, however, I have made several additions, particularly to the chapter upon Drawbacks, and to that upon Bounties; likewise a new chapter entitled, 'The Conclusion of the Mercantile System;' and a new article to the chapter on the expenses of the sovereign. In all these additions, *the present state of things* means always the state in which they were during the year 1783 and the beginning of the year 1784."

The italics are Smith's, and clearly indicate the emphasis he desired to lay on this aspect of the question. Yet how many people are there who are prepared to place themselves in his situation, or will bear in mind the economic conditions such as he found them, and judge of his work in relation thereto. As Smith would say, in the course of their reasonings, although they may realise the truth of a proposition, yet it would seem to slip out of their memory.

Smith realised the imperfections of the mercantile system, but he was undoubtedly conscious of the fact that it was not given to any man to formulate and complete, in all of its essentials, a new science; and this, in our view, was his reason for limiting himself to establishing its fundamentals, and modern economic science may be

assumed to have taken root from the seeds which he has sown.

List was undoubtedly conscious of this, and it was ungracious of him not to concede a fuller recognition to Smith—it would not have impaired the value of his own great work; but we see in the attitude he adopted towards Smith in this respect a desire to take to himself more credit than he was legitimately entitled to.

In the development of his national system of political economy, List had many advantages which Smith had not, inasmuch as, at the time he wrote the work, applied science had made considerable progress; he had the further advantage of the experience gained in the application and development of Smith's tested doctrines; and to the numerous inventions and discoveries that had been made since Smith's great work was published.

If List was not conscious of the exact system that Smith intended, it is our candid opinion that he was subconsciously influenced by his teachings in developing his own national system of political economy. On page 209 of his work he more or less confirms this view—

"A penetrating mind like that of Adam Smith could not entirely overlook the difference between wealth and its causes; nor the decisive influence of these causes upon the condition of nations. In his introduction he distinctly announced that

'Labour is the fund which originally supplies a nation with its wealth, and the abundance or scantiness of the annual supply must depend principally upon the actual state of the skill, dexterity and judgment with which labour is applied, the productive power of labour, and upon the proportion between the number of those who are not so employed.' *It is easy to see that Adam Smith perfectly understood that the welfare of nations depends chiefly on the amount of their productive power.*

"*But it appears not to be in the order of nature that a science shall come forth complete from the head of any single philosopher.*"

The italics are ours; but in this last sentence we get an admission which is highly significant, and with the tenor of which we fully agree. But how was it possible for List to reconcile this view with the other statement that Smith was an advocate of absolute free trade? Both statements are clearly contradictory in terms and principle.

In the view we hold of Adam Smith's teaching we are evidently not alone. Francis Horner, who rose to very high repute as an economist in the early part of last century, states that both he and Lord Seymour [1] "were under the necessity of suspending progress in the perusal of the *Wealth of Nations*, on account of the insurmountable

[1] Preliminary Essay, by Stephen Colwell.

difficulties, obscurities and embarrassments in which the reasonings of Chapter V. are involved" (*Memoirs*, vol. i, p. 163). He and his friend had engaged in a regular and deliberate study of the work thus given up. He asks (*ibid.*, p. 126) if "Smith did not judge amiss in his premature attempt to form a sort of system upon the *Wealth of Nations*, instead of presenting his valuable speculations to the world under the form of separate dissertations? As a system, his work is evidently imperfect, and yet it has so much the air of a system, that we are apt to adopt his erroneous opinions, because they figure in the same fabric with approved and important truths." In another place he says, in reply to a request to edit the *Wealth of Nations*, "I should be reluctant to expose Smith's errors before his work has operated its full effort. We owe much at present to the superstitious worship of Smith's name; and we must not impair that feeling until the victory is more complete. There are few practical errors in the *Wealth of Nations*, at least of any great consequence; and until we can give a correct and precise theory of the nature and origin of wealth, his popular, plausible, and loose hypothesis is as good for the vulgar as any other" (*ibid.*, 229).

As will be observed above, Mr. Horner has a suspicion that a system runs through Adam Smith's principles, but that neither he nor Lord Seymour

could perceive it. He was "reluctant to expose Smith's errors before his work had operated its full effect." In this decision he was wise, for at such an early period it was impossible for him to definitely assert, with any degree of certainty, that any of the fundamentals enunciated by Smith were wrong in principle.

"When Smith is read as he merits to be," writes J. B. Say, "it is seen that before him there was no political economy." Yet for some peculiar reason he proceeds as follows: "His work can only be considered as an immethodical assemblage of the soundest principles of political economy, supported by luminous illustrations of highly ingenious researches in statistics, blended with instructive reflections; it is not, however, a complete treatise of either science, but an irregular mass of curious and original speculations, and of known demonstrated truths."

It is difficult to conceive, however, how any one can attribute to Smith "original speculations and of known demonstrated truths" unless such principles conformed to a definite economic system—if it was not drawn to chart, it was at any rate clearly perceived mentally.

In glancing through the books of a second-hand book-shop quite recently we came across a tenth edition of Adam Smith's *Theory of Moral Sentiments*, published in 1804. In this edition there

is a very short preface (two pages), written by Smith under the title of "Advertisement," the existence of which can only be known to a very limited circle. It certainly could not have been known to List, or else he would have been more guarded in his statements.

The preface was written by Smith after he had completed the *Wealth of Nations*, and in it he confirms that his *Theory of Moral Sentiments* and the *Wealth of Nations* were intended by him to form part of a general system (he uses the words "plan" and "design"), to be concluded, should his age and health permit, with a work on the *Theory of Jurisprudence*.

It affords us very great pleasure to be able to publish this preface, as it supports the view we have formed independently of it, and which we have consistently maintained throughout our study of this subject. The preface speaks for itself and will, no doubt, prove to be of considerable public interest.

"Since the first publication of the *Theory of Moral Sentiments*, which was so long ago as the beginning of the year 1759, several corrections, and a good many illustrations of the doctrines contained in it, have occurred to me. But the various occupations in which the different accidents of my life necessarily involved me, have till now prevented me from revising this work with the

care and attention which I always intended. The reader will find the principal alterations which I have made in this New Edition, in the last chapter of the third Section of Part First; and in the four first chapters of Part Third. Part Sixth, as it stands in this New Edition, is altogether new. In Part Seventh, I have brought together the greater part of the different passages concerning the Stoical Philosophy, which, in the former Editions, had been scattered about in different parts of the work. I have likewise endeavoured to explain more fully, and examine more distinctly, some of the doctrines of that famous sect. In the fourth and last Section of the same Part, I have thrown together a few additional observations concerning the duty and principle of veracity. There are, besides, in other parts of the work, a few other alterations and corrections of no great moment.

"In the last paragraph of the First Edition of the present work, I said that I should in another discourse endeavour to give an account of the general principles of law and government, and of the different revolutions which they had undergone in the different ages and periods of society; not only in what concerns justice, but in what concerns police, revenue, and arms, and whatever else is the object of law. In the Enquiry concerning the Nature and Causes of the Wealth of Nations, I have partly executed this promise; at least so far as concerns police, revenue, and arms. What remains, the theory of jurisprudence, which I have long projected, I have hitherto been hin-

dered from executing, by the same occupations which had till now prevented me from revising the present work. Though my very advanced age leaves me, I acknowledge, very little expectation of ever being able to execute this great work to my own satisfaction; yet, as I have not altogether abandoned the design, and as I wish still to continue under the obligation of doing what I can, I have allowed the paragraph to remain as it was published more than thirty years ago, when I entertained no doubt of being able to execute everything which it announced."

The difference between the system advocated by List and the one we have endeavoured to enunciate herein, is that in our system, *i. e.* national economics based on freedom of trade, with a limit on tariff duties of twenty per cent. *ad valorem*, we have more clearly defined it as a science. Our system presupposes the existence of other sciences and embodies them for purposes of co-ordination, such as those of education, chemistry, production (manufacture and agriculture), transportation, and banking, and that all Government policy should be based upon it.

In the system we advocate we seek to apply the principles of national economics through phases or spheres of activity, our view of the science being that the productive power of all phases and spheres of activity ought to be developed simul-

taneously and to the utmost possible extent, acting on the principle that the strength of a chain is determined by its weakest link.

To make the matter more readily understandable, it is well known that the speed of a fleet of battleships is determined by the speed of its slowest battleship, and, therefore, the only means by which the collective speed of the fleet can be increased is to eliminate the least efficient battleship, or battleships, and substitute for them ships of a superior class. The strength or productive power of the nation, therefore, for defensive and offensive purposes, either in the arts of peace or in war, is influenced very largely by these same principles.

Experience has taught us that the power and prestige of a nation does not lie only upon its military and naval forces. The capacity to produce efficiently is at least as important as the other two. Industry has not only to bear the cost of sustaining our naval and military forces out of profits, but it has also to deliver sufficient munitions for destructive purposes, and the amount required is regulated entirely by the productive capacity of other competitive nations. And this doctrine will survive until all nations agree to live peaceably with one another, and to remove all restrictions to general freedom of trade.[1]

[1] *On the Relation of Imports to Exports* (J. Taylor Peddie).

If the science of national economics based upon freedom of trade is to be operated as a branch of the science of Government it is necessary that it shall mainly concern itself with the productive power of the existing sciences, *i. e.* phases or spheres of activity, and this is the essential aspect of the question which seems to have been overlooked by previous economic writers.

As we have more than once indicated, no individual producer can live unto himself, and similarly it follows that no phase of industrial activity, whether it be in industry or agriculture, can exist by itself; it must have regard to the other phases of activity which surround and are dependent upon it. The greatest and most modern force in wealth-production is organisation, but, notwithstanding this, it should not be assumed that individuality is lost in organisation; on the contrary, it is a greater factor than ever, and the more that individuality is developed in an organisation the stronger does it become in productive power. It is, however, essential that the individuals composing an organisation, a group, or a sub-group, should work cohesively and intelligently, for one purpose.

As with individuals, with organisations, or spheres of activity, so it is with the sciences to which we have referred, and will refer to further hereafter. They cannot live unto themselves:

they are surrounded and are dependent upon other individuals, organisations and spheres of activity.[1]

In these views we are supported by the maxims of Frederick List, who in the introduction to his work, *On a National System of Political Economy*, writes as follows—

"The association of individuals for the prosecution of a common end is the most efficacious mode towards ensuring the happiness of individuals. Alone, and separated from his fellow-creatures, man is feeble and destitute. The greater the number of those who are united, the more perfect is the association, and the greater and the more perfect is the result, which is the moral and material welfare of individuals.

"The highest association of individuals now realised is that of the state, the nation; and the highest imaginable is that of the whole human race. Just as the individual is happier in the bosom of the state than in solitude, all nations would be more prosperous if they were united together by law, by perpetual peace, and by free interchange.

"Nature leads nations gradually to the highest degree of association; inviting them to commerce by variety of climate, soil and productions; and by overflowing population, by superabundance of capital and talents, it leads them to emigration and the founding of distant colonies. International trade, by rousing activity and energy,

[1] Continued on p. 263 under definition of National Economics.

by the new wants it creates, by the propagation among nations of new ideas and discoveries, and by the diffusion of power, is one of the most powerful agencies in promoting national prosperity.

"As human association ought to be considered under two points of view (that is to say, the cosmopolitan, embracing all the human race, and the political, or merely national), every economy, private or public, ought to be considered under two different aspects: the individual, social and material power, by means of which riches are produced, and the interchangeable value of the products of industry.

"There is, consequently, a cosmopolitan economy and a political economy, a theory of interchangeable value and a theory of productive power. These doctrines are distinct in their essence and require to be developed separately.

"The productive power of nations is not solely dependent on the labour, the savings, the morality and the intelligence of individuals, or on the possession of natural advantage and material capital; it is dependent also upon institutions and laws, social, political, and civil, but, above all, on the securities of their duration, their independence, and their power as nations. Individuals would be in vain laborious, economical, ingenious, enterprising, intelligent, and moral, without a national unity, without a division of labour, and a co-operation of productive power. A nation cannot otherwise attain to a high degree of prosperity and power, nor maintain itself in the permanent possession of its intellectual, social, and material riches.

"The principle of the division of labour has been hitherto but imperfectly understood. Industrial production depends much less on the apportioning of the various operations of a manufacture among several individuals than on the moral and material association of those individuals for a common end.

"This principle applies not only to a manufacturer or to a rural industry; it extends, also, to every kind of national industry, agricultural, manufacturing, and commercial.

"The division of labour and the combination of productive power take place in a nation when the intellectual power is applied so as to co-operate freely and efficiently with national production, when manufacturing industry and trade are equally and harmoniously developed."

ON THE NATURE OF POLITICAL ECONOMY

Economic writers have for the most part concerned themselves with defining terms more than facts. As Archbishop Whateley, in the appendix to his work on Logic, has stated, "the terms of this science are drawn from common discourse and seldom carefully defined by the writers who employ them; hardly one of them has any settled or invariable meaning, and their ambiguities are per-

petually overlooked." The words to which he refers are value, wealth, labour, capital, rent, wages, and profits. Under each of these words he places the definitions of various writers, differing so widely that it seems strange a science could hold together cemented by such phraseology. The Authors to whom he makes reference are Adam Smith, J. B. Say, Ricardo, Malthus, Storch, Sismondi, Mill, Torrens, and McCulloch.[1]

To Whateley's list we would add three others which have come under our own observation, and which are discussed in the volumes we have now completed: namely, *Raw Materials*, *Free Trade*, *and Political Economy*. The whole three are misnomers. The correct descriptive terms, as may have been gathered from our discussion, are "Natural Materials," "Freedom of Trade," and "National Economics." As we have already defined the terms "Raw Materials" and "Free Trade," we will now define the term "Political Economy," for we believe that until we obtain precise descriptive terms economic science will continue to remain a confused study instead of being, what it ought to be, and can be, a precise and definite science.

[1] Stephen Colwell, in the Preliminary Essay published in the American translation of the work by Frederick List, and we desire to make due acknowledgment to him for the more complete study of the subject which we now make.

Thomas de Quincy, in his work on *The Logic of Political Economy*, which was written expressly to correct some errors in the logic and terminology of the science, stated that in his estimation—

"Political economy does not advance. Since the revolution effected in that science by Ricardo (1817), upon the whole it has been stationary. But why? It has always been my own conviction that the reason lies in the laxity of some, amongst the distinctions which are elementary to the science. For example, that one desperate enormity of vicious logic which takes place in the ordinary application to price of the relation between supply and demand, has ruined more arguments dispersed through speeches, books, journals, than a long life could fully expose. Let us judge by analogy drawn from mathematics. If it were possible that but three elementary definitions, or axioms, or postulates, should be liable to controversy and to a precarious use (a use dependent upon petition, momentary consent), what would follow? Simply this, that the whole vast aerial synthesis of that science, at present towering upwards towards infinity, would exhibit an edifice eternally, perhaps, renewing itself by parts, but eternally tottering in some parts, and in other parts mouldering eternally into ruins. Such, even to this moment, as to its practical applications, is the science of political economy. Nothing can be postulated; nothing can be demonstrated."

John Stuart Mill has also an observation to

make on this subject, and in his *Essays on some Unsettled Questions of Political Economy*, which appeared in 1844, excuses the want of good definitions by saying that many of the acknowledged sciences are deficient in this respect, and that good definitions are the last thing to be looked for in the march of a science, "first principles being, in fact, last principles."

To one who was supposed to be skilled in logic and precise in language, this excuse by Mill is most astonishing. Had he taken more trouble to supply us with the essential definitions he might not have been led to develop the theory of *Laissez faire*, *Laissez passer* to the extent he has.

He gives the *rationale* of the distinction between Physical and Moral Science as follows—

"Everything," he says, "which can possibly happen in which man and external things are jointly concerned, results from the joint operation of a law or laws of the human mind. Thus the production of corn by human labour is the result of a law of mind and many laws of matter. The laws of the production of the objects which constitute wealth are the subject matter both of political economy and of almost all the physical sciences; such as are purely laws of matter belong to physical science exclusively. Such of them as are laws of the human mind, and no others, belong to political economy, which finally sums up the

result of both combined. Political economy presupposes all the physical sciences; it takes for granted all such of the truths of those sciences as are concerned in production. It then inquires what are the phenomena of mind concerned in production and distribution; it borrows from the pure science of mind the laws of those phenomena, and inquires what effects follow from these mental laws, acting in concurrence with those physical ones."

Upon these considerations he furnishes the following definition of political economy—

"The science which treats of the production and distribution of wealth so far as they depend upon laws of human nature. Or thus: The science relating to the moral or psychological laws of the production and distribution of wealth."

The essay continues to illustrate the relations of mental science with political economy, and then proceeds—

"Pure mental philosophy, therefore, is an essential part or preliminary of political philosophy. The science of social economy embraces every part of man's nature in so far as influencing the conduct or condition of man in society. It does not treat of the whole of man's nature as modified by the social state, nor of the whole conduct of man in society. It is concerned with him solely as a being who desires to possess wealth,

and who is capable of judging of the comparative efficacy of means for obtaining that end."

After remarking at some length on the mixed motives which govern men in the affairs of life, he says—

"But there are also certain departments of human affairs in which the acquisition of wealth is the main and acknowledged end. It is only of these that political economy takes notice. The manner in which it necessarily proceeds is that of treating the main and acknowledged end as if it were the sole end." The author then arrives at another definition, which, in his view, "seems to be complete": "The science which traces the laws of such of the phenomena of society as arise from the combined operations of mankind for the production of wealth, in so far as those phenomena are not modified by the pursuit of any other object." [1]

In reading this highly elaborate definition by J. S. Mill we begin to see where all our economic troubles have begun. He asserts that "pure mental philosophy is an essential part or preliminary to political economy;" and that "there are also certain departments of human affairs in which the acquisition of wealth is the main and acknowledged end." Poor Mill! it is the preaching of such a doctrine as this which causes many

[1] From Stephen Colwell.

people to agree with Matilde that political economy is a science which has "by its pompous, scientific phraseology, its contradictions, and its vicious terminology, defied comprehension and resisted common sense." And we can now quite imagine the deep-rooted prejudice which organised labour has had towards the science known as political economy, and which has forced them, out of sheer desperation, to turn to Karl Marx for a measure of consolation.

As Stephen Colwell very wisely writes—

"We cannot but think that the author of these two definitions realised, in the progress of his essay, that the science of political economy, as received by himself and by *many* of the school of Adam Smith, and by J. B. Say, could not logically or consistently include any considerations of morality, humanity, or religion."

We can now see that according to Mill, who is no doubt one of their best exponents, the school of *Laissez faire*, *Laissez passer* consider that political economy may be "characterised as essentially an abstract science and its method as the *à priori*." "It reasons, and, as we contend, must necessarily reason from assumptions, not from facts." "That which is true in the abstract is always true in the concrete, with proper allowances."

In the last few words just quoted is to be

found the empirical method of reasoning which underlies the principles of the *Laissez faire* school. Who are to be the arbiters and the judges of the correct and proper allowances that are to be made in the conversion of an abstract proposition into the concrete? And are we to believe that the same judgment and discretion would be brought to bear in the consideration of economic problems that arise for consideration in the course of time?

Human nature being as it is, it will be difficult to expect the average citizen to place much reliance upon such a system, and have we not had experience of it already in the case of organised labour? This group is not prepared to believe that abstract theories are always true in the concrete, with proper allowances. Such concessions as they have demanded in the past have had little or no relation to the abstract, but have always been sufficiently concrete and carried definite guarantees as to their realisation. The words "with proper allowances" may be described as a correct definition of empiricism at its best, and empiricism and *Laissez faire* are synonymous.

Political economy is not, then, according to Mill, a mere collection of laws by which men are to be governed in the affairs of life, but a collection of the truths or laws of abstract science intended for the information of practical men. The scientific political economist "stands in the

same relation to the legislator as the mere geographer stands to the navigator, telling him the latitude and longitude of all sorts of places, but not how to find whereabout he himself is sailing," and, we may add, not pointing out where he is to sail nor the rocks and dangers in his track. He recommends to the mere economist "extreme modesty" in his opinions on practical politics, and in the practical applications of his doctrines to existing circumstances.[1]

It is the system of political economy which has brought us very near to losing the war with Germany. It represents a policy which is inconsistent with nationality, and it cannot in future be acceptable as the basis of our national business policy. Mill and other nineteenth-century economists endeavoured to persuade us to believe that economic science is a mental philosophical study instead of being a physical one. As a matter of actual fact it is neither mental nor physical, but in its elementary form it is a combination of the physical and the mental, the reason being that material welfare must always precede any form of mental culture. It would not be natural to expect, and it would be difficult to believe, that any human being could exhibit a disposition to listen to a dissertation on the theory of moral sentiment if he possessed an empty stomach. Would he not

[1] Preliminary Essay by Stephen Colwell, p. xxii.

rather be more disposed to entertain proposals which would provide him with the necessary means of subsistence and material welfare? And if such proposals were even then not effective, we are inclined to think he would be prepared to covet or exhibit an inclination to deprive other people of their legitimate property in order that his natural wants might be satisfied.

In many respects we consider the style and the logic of Stephen Colwell, in his notes to the translation of the work of Frederick List on a *National System of Political Economy*, to be much superior to the main context of the work. Colwell is most eloquent in the following passage, and the school to which he refers is the *Laissez faire* school, or the free trade doctrinaires—

"The process of disintegration has commenced, and will not cease until the school, its popularity and opinions, shall belong to the history of the past. In the first announcement of this system, nothing was more insisted upon than the *non-intervention of government and individual liberty*. These were necessary to give the new science fair play. The subject of the science was the production, distribution, and consumption of wealth. The science could assume that the natural wants of men would compel them to labour; that this labour would produce wealth; that this wealth must be distributed; that the distribution would be effected by free trade, according to the industry

and wants of all people, under the operation of supply and demand, and the theory of markets. The science depended upon the habits and instincts of man, a producing and exchanging animal, to make its theory good. But that these habits and instincts should operate fairly, and justify the doctrine, they must be let alone to exhibit their doings in the natural order of things. The nation must not interpose any policy of its own, nor enforce any restriction or regulation; it must not attempt to relieve or furnish employment to those who suffer for want of work; all individuals must be free within the entire scope of practical political economy. Any intervention on the part of government would be a disturbance of the natural order or course of things. The science had assumed what individuals, under the pressure of their natural and factitious wants, would do; but how could the science anticipate what the movements of a despot or the action of a government might be? These sources of action had neither natural instincts nor settled habits upon which to found the laws of a science. If the science should permit itself to be drawn into the regions of mere common sense, of sound discretion, of administrative skill or cunning, or despotic or legislative caprice, it must necessarily expire. The business of governing, in reference to the interests of industry and trade, had hitherto been carried on mainly without any aid from political economy, under some of the influences just mentioned, and are far too various and capricious to

be reducible into the formula of a science. And yet the great lights of the science above named have, by the concessions just referred to, deserted the great arena of the science, the free acting habits and instincts of all the individuals of the world, and have permitted themselves to be drawn into the region of national policy, sound discretion, common sense, legislative caprice, or despotic authority. So far as these operate, the science is gone; for it is no science of national policy. It is clear to our apprehension that the lights of the science above named have opened a door which will admit enemies the school can never again thrust out or overcome. There are yet many devotees of the science who maintain an uncompromising hostility to all such fatal concessions. In the number for August 1855 of the *Journal des Economistes*, which is the great organ of the disciples of Say, an article on this subject commences thus: 'The individual is the substance of society, and society has no other obligation, as it has no other object, than the security of the individual; it owes to no one anything but liberty. It can assure justice to all; it can offer nothing but justice to any one. Every system which pretends to give more than liberty, attacks liberty. Every measure which passes the defence of individual rights, overlooks the rights of individuals.' These principles condemn, in the name of morals, and in the name of utility, every intervention in the movement of individual activity. This is the very spirit and the true ground of the science.

If this be given up, where is the stopping-place? *If Government be allowed to intervene at all, it must be upon the ground of public or private good, and these exceptions cover the whole ground of industry and trade. When Government becomes the judge of what is to be done for the interests of the men who labour and the men who trade, the science of the school will be at an end.*" [1]

The italics are ours; but has the experience gained from the nation being in a state of war not justified the fundamental principles so ably enunciated by Colwell, even though they were written as long ago as 1856?

DEFINITION OF NATIONAL ECONOMICS

The function of a Government is to advance, by wise laws and regulations, the general welfare of the community, and it is elected for that purpose. As the administration is therefore obliged to legislate in the national interests, would it not be more correct to describe that branch of the science of government by the name of National Economics, rather than political economy? Every phase of human activity, and the sciences, has progressed by evolutionary processes, sometimes by revolu-

[1] List's *National System of Political Economy*, pp. 257, 258.

tionary, and are we to assume that economic science is to be an exception to the rule? In view of the great advance which has been effected in the sciences of education, chemistry, production, transportation, and banking, should we be correct in assuming it? We think not.

The term political economy is an empty phrase; it signifies nothing in modern practice; it has outlived its usefulness unless it be retained for the purpose of defining the science of *Laissez faire*, *Laissez passer*, as enunciated by John Stuart Mill, and the Cobdenite school.

On the other hand, National Economics is a science which constitutes the basis of nationality and is designed to control all the laws and regulations relating to education, chemistry, production, transportation, and banking, out of which wealth is created; it seeks to make all dead values remunerative.

It forms at all times and in all conditions of human advancement a most important branch of the science of government either for offensive or defensive purposes in the arts of peace or war. National Economics presupposes the existence of other sciences, such as education, chemistry, production, transportation and banking, which are embodied within it, with a view to co-ordination for the advancement of national welfare. All laws and regulations which may be formulated

by the Government relating to production, distribution and efficiency, should be operated through them, or be mainly concerned with them.

This formula will be found to be sound in theory as well as in practice, inasmuch as there are departments of the administration of the Government already in existence which are mainly concerned with the sciences to which we refer, and if the principles we enunciate be accepted by the Government, the science of National Economics then becomes an established fact.

Our present Government policy seems to be to legislate in any direction whatsoever whenever necessity or public opinion deems it to be expedient. The administration has no definite line of economic policy to which it is prepared to conform its legislation; the result being that we have a mass of legislation which is not articulate; certain parts of it are diametrically opposed in principle to other parts, with results, of course, prejudicial to the whole.

There is a vast amount of work to be done by the administration which is prepared to adopt National Economics as the basis of its national business policy in eliminating all laws and regulations which are prejudicial to the development of the principles of nationality; and in making those that remain, workable, and effective, in a national policy.

It would, therefore, follow as a corollary of this, that all legislation which may be subsequently effected should be framed in a manner consistent with the principles or policy constituting the basis of the new economics, and not against them.

The policy which we are now enunciating is not founded on theory but on actual experience, from observations made, and from history. The main achievement, or characteristic, of the scheme, as in that of Frederick List, or in Adam Smith's, may be summed up in the one word "nationality."

As we have mentioned in the Preface to this work, we must first of all organise all phases of national activity on purely national lines, subsequently on Imperial lines, and ultimately on International lines. But if the economic edifice which we may seek to erect is to have any foundation it should be built up upon a well-defined economic system. As the business man would say, be careful of the foundation and the rest will follow; at any rate, it is certain that whatever edifice we may seek to erect cannot be founded upon empiricism or empirical methods, of which *Laissez faire*, *Laissez passer* are the symbols.

To suggest that the State should use its national power for the proper regulation of its industry and commerce, either through laws affecting transportation, education, science, banking, tariffs, or the creation of an efficient consular service (all of

which, if undertaken upon an adequate scale, will cost money, but efficiency cannot be obtained without), is not to suggest that the State should interfere with the actual conduct of business or with individual liberty; far from it. Both objects can be achieved without coming into conflict, and we see a notable instance of this in the case of America. All that the State should do is to ensure that its industry and commerce are conducted in conditions equally efficient as those prevailing in other countries, as the State only has the necessary power to correct inequalities.

It must be obvious, particularly in view of the experience which we have derived from the present war, that national power does not solely lie with the strength of our Army and Navy, but also with the strength of our educational, productive, transportation, and financial resources. And, *ipso facto*, the prestige of our nation, and through it our Empire, is measured entirely in the eyes of the world by the efficiency of our national power.[1]

Every article of utility that is produced is influenced by the five sciences previously mentioned. For instance, to produce successfully, you must first of all have education; secondly, you must have the technologist, or analytical chemist, to assist you in obtaining the best possible materials; thirdly, you must have the latest experience

[1] *On the Relation of Imports to Exports* (J. Taylor Peddie), p. 134.

and knowledge in methods of production, and also the latest and most modern machinery to assist you; fourthly, you require the services of the transportation companies in carrying or shipping your goods to those who desire them; and fifthly, you need the banker or capitalist to finance your total operations with the greatest possible facility.

It is essential, therefore, if the nation is to advance on anything like progressive lines, that the phases of activity mentioned should be made as efficient as it is possible to make them. If individuals adopt and support this policy as the basis of our national business system, they must necessarily become national economists.[1]

"The absurdity of divorcing wealth from its indispensable union with human interests, and from its dependence upon considerations and motives higher than wealth, is, in no aspect, more striking than in the attempt to separate it from national policy and politics. Whether this serious mistake arose from the exigencies of logic, or from neglecting the distinction between science and art, it was equally fatal to clear perceptions. The assumption that the whole range of interests and subjects usually embraced in Political Economy—that is, all that relates to industry, to trade and social amelioration, should be withdrawn from the domain of politics, and from the discretion of statesmen and legislators, and be committed to

[1] *On the Relation of Imports to Exports* (J. Taylor Peddie), p. 135.

Political Economists, was so bold, if not so presumptuous, that it could never have been made, except by men labouring under some great delusion. And when we reflect upon the extremely unsettled state of the science, by the light of which Political Economists in their closets were to decide upon the well-being of millions upon millions of people, and upon the fate of nations, we cannot but wonder that such an idea was ever entertained for a moment by men of intelligence. Yet this doctrine has had its day, and even now prevails to some extent. There is a certain order of mind which, abhorring details, and feeling unable to grapple with them, gladly takes refuge in rules and generalities; and to this must belong those who imagine that the science of Political Economy is entitled to take precedence of political wisdom and experience.

"Nations are associations designed to obtain and realise all the advantages which united power and wisdom can secure for a people. However this object may be modified or limited by forms of government, or ancient customs and legislation, the same great motive remains. The legislation of civilised countries, the skill, knowledge and experience of statesmen are, or should be, chiefly directed to this point. No government is so restricted in its powers as to be a mere negation in regard to the social interests of the country, and none should be so blind as not to see that it must be vain to attempt securing any higher interests of a people while their material or industrial

interests are neglected or suffered to languish. The extent to which governments have gone, and must necessarily go, in protecting and promoting industry, clearly contradicts the idea that men can be let alone to manage their private business entirely in their own way. Such is the legislation in regard to corporations, partnerships, banks, brokers, railways, canals, roads, mechanics' liens, apprenticeships, inspections, patent-rights, copy-rights, hours of labour, licences, auctions, conveyances of real estate, coinage, weights and measures, promissory notes, and insolvency; all such enactments, of which there is a vast mass, are designed to regulate the course of business, and control men in their private affairs. The extent to which this intervention may be advantageously carried is not, and cannot be, determined in advance, but must be left with the institutions of a country, to the sound discretion of those in whom its power is vested.

"Every nation must have a system, mainly its own. It is literally impossible that a population, occupying an extensive territory, can be dependent upon other countries for any considerable portion of its consumption without great sacrifice. However one country may be disposed to look to others for its supplies, it can only obtain them to the extent that other countries need its products. Its consumption will then be, not in proportion to the power of domestic production and the people's wants, but to the desire of other countries to have their commodities. In point of fact, it is

found that every nation mainly supplies its own wants." [1]

Although these words were written by Mr. Stephen Colwell in the Preliminary Essay to the American translation of Frederick List's great work in 1856, they have lost none of their force or argument even to-day. And if we take a retrospective view of the World's history, or even of our own, since that date, the principles which he so ably enunciates can only be characterised, in the words of J. B. Say, as "known demonstrated truths."

It cannot be said, of course, that the United Kingdom, or the great Empire for which it is responsible, has been able to demonstrate the truth of the proposition which Stephen Colwell so ably outlines in an economic sense, but the fall of the late Coalition Government was brought about because "it was a mere negation, and allowed the material interests of the country to languish." It suffered from a want of that vitality which Stephen Colwell and Frederick List so ably demonstrate should be the chief characteristic of any form of National Government. If we, as a people, have a due sense of proportion and can be credited with any intelligence at all, we cannot but recog-

[1] Preliminary Essay by Stephen Colwell in the translation of List's *National System of Political Economy*, pp. lxviii, lxix.

nise that the extraordinary offensive and defensive powers exhibited by Germany during the course of the present war are mainly attributable to the successive Governments which Germany has had, since the days of Frederick List, recognising and treating the principles underlying national economy as a branch of the science of Government, and applying them faithfully and religiously as opportunity or occasion served. As a race, the British people understand the science of politics better than any other people, but they have failed to perceive that political science and economic science are indispensable and inseparable; that in reality they constitute, and are symbolic of, national power; or that, at any rate, they are two phases of it; and that therefore they should be the instruments which we ought to entrust to our representatives in Parliament, and through them the Government, to exercise with such wisdom and discretion as they may possess in advancing the higher interests and civilisation of the race. For the future we must be prepared to do this, if for no other reason than that we must meet like with like. Our national economics must be of a kind as will effectively counter those employed by Germany.

In a speech which he made at the Guildhall on November 9, 1914, Mr. Asquith most admirably reaffirmed our determination to continue the war

until the aims with which we entered it are won, and the following quotation taken from the speech defines our position—

"We shall never sheathe the sword which we have not lightly drawn until Belgium recovers in full measure all and more than all she has sacrificed, until France is adequately secured against the menace of aggression, until the rights of the smaller nationalities of Europe are placed upon an unassailable foundation, and until the military domination of Prussia is wholly and finally destroyed."

In a further speech on April 10, 1916, Mr. Asquith stated, *inter alia*, that—

"Great Britain and her Allies did not enter into the war to strangle Germany, nor to wipe her off the map of Europe, nor to destroy or mutilate her national life, but to prevent Germany from establishing a position of military menace and dominance over her neighbours."

He summed up our general position in the following sentence—

"As a result of the war we intend to establish the principle that international problems must be handled by free negotiation on equal terms between free peoples, and that this settlement shall no

longer be hampered and swayed by the overmastering dictation of a Government controlled by a military caste. That is what I mean by the destruction of the military domination of Prussia; nothing more, but nothing less."

In the foregoing quotations our position is most admirably defined by Mr. Asquith with one exception—namely, he made no reference to the economic position. The war of arms declared by Germany in August 1914 was merely the culminating point of the economic war she had successfully engaged in with the United Kingdom and other European nationalities since 1870. The economic war was a legitimate operation, and of course no nation could take exception to it, for Germany merely took advantage of the conditions as they existed—which any business man would do in like circumstances if his competitors were foolish enough to concede him the advantage; but Germany, being intoxicated with success, lost her head and resorted to force of arms to secure, as she persuaded herself to believe, for all time the predominant economic position which she had quietly but successfully achieved in the years preceding, and up to, 1914.

Why she should have gambled in this way with so rich an inheritance will never be satisfactorily explained, unless it be that the Kaiser desired to secure for himself the historical credit of having

founded and created the larger German Empire which some of the fanciful and premature German maps have indicated to us. But certain it is that had he contented himself with the work his Governments had achieved, and had allowed Germany to wait another twenty-five years, the world would have been at his feet, or at his successors'. In other words, the Kaiser could have secured for Germany by peaceful economic penetration all that he endeavoured to prematurely secure by force of arms; his cardinal error was, therefore, in not allowing the economic decay, or undermining process, to continue long enough in the countries whose possessions and wealth he desired to acquire.

But what was the economic system which enabled Germany to reach the dominating economic position she had reached in 1914? It was no other than Frederick List's National System of Political Economy.

Frederick List was the great teacher who led Germany on the road to success, and had she continued to follow his economic teaching, instead of following the philosophy of Treitchke and Nietzsche and Bernhardi's militarism, she could have made her position dominant and secure in the world in view of the ignorance of other European nationalities in economic science generally.

Observe the prophetic wisdom contained in the following eloquent passage in List's great work,

and, in the light of his teaching, imagine what the German people will think of their present rulers when they come to reconsider their present experience in perspective.

"History teaches us that in a state of war human welfare is at its lowest degree, and that it rises in proportion as the associations of society increase. In a primitive state of the human race, we find only families; afterwards come cities, then confederations of cities, then the union of a whole country, and, finally, the association of many States under one constitution. If the nature of things has been strong enough to extend to hundreds of millions the associations which commenced with families only, we may imagine that its energy might suffice to effect the union of all nations. If the human mind has been able to appreciate the benefits of society upon such a large scale, we may regard it as capable of comprehending the advantage of an association embracing the whole of humanity. A multitude of symptoms reveal this tendency. It may suffice to recall the progress made in science, art, industry, and social organisation. We can now predict, with certainty, that in some ten years, owing to improved means of communication, civilised nations will be as closely united in their relations, both material and moral, and even more so, than the different counties of England were a century since. The Governments of Continental nations already possess, in the telegraph, the means of conferring

together almost as readily as if they were upon the same spot. Powerful forces hitherto unknown have already elevated industry to a development beyond all expectations, and others still more powerful are giving tokens of their appearance. But as industry advances, and becomes diffused throughout different countries, war is rendered very improbable, if not impossible. Two nations, equally advanced in industry, can mutually inflict greater injuries in one week than they can repair in the space of a generation. Consider, also, that these new powers, hitherto specially devoted to production, will not refuse their energies to the work of destruction, and that they may be used for the purpose of defence generally; but especially are they at the service of the Continental nations of Europe, even to the threatened result of depriving Great Britain of the defensive advantages arising from her insular position. In the Congress of its great powers, Europe possesses already the embryo of a future Congress of Nations. Henceforward, the tendency to adjust public differences by means of protocols must prevail over that of extorting justice by force of arms. More correct ideas on the subject of wealth and industry are now prevalent, and the best minds throughout the world are convinced that the civilisation of barbarous and half-barbarous people, the restoring nations which have retrograded, and the foundation of colonies, offers to the more advanced nations a field for the development of their productive power, far more promising and satisfactory than war or hostile commercial regulations. In

proportion as this conviction becomes established, and as the means of communication shall open between civilised and uncivilised nations, the former will more fully comprehend that the civilisation of barbarous people and nations rent by long-continued anarchy or oppressed by bad governments, is a mission worthy of great national efforts, a mission which belongs to all, and which can only be accomplished by associated efforts.

"It seems to be an unalterable law of our nature, an instinct of humanity which prompts or stimulates civilised nations, to extend their power over people of less culture: hence we may infer that the civilisation of all nations and the culture of all the world and its inhabitants is the true mission of national power and intelligence. On all sides we observe population, intellectual power, and material capital, increasing under the influence of civilisation to the point of being forced forward upon other less civilised countries. When the soil can no longer feed its population nor give employment to those who dwell upon its surface, the unemployed must go to distant countries, seeking more fruitful fields; when talents and industrial capacity no longer obtain a sufficient compensation by reason of an over-supply, they emigrate, seeking homes where their services may be in demand; when, from the accumulation of material capital, the rate of interest falls so low that small capitalists can no longer live, they too must emigrate to poorer countries for more profitable investments.

"The system of Say, or his school, rests, therefore, upon a true idea—an idea that science, if faithful to its vocation of aiding the practical, must admit and elaborate; an idea that practice cannot disregard without going astray. This school has, however, neglected to take into account separate nationalities, their interests, their particular condition, and to reconcile them to the idea of universal union and perpetual peace.

"The school has admitted as realised a state of things to come. It presupposes the existence of universal association and perpetual peace, and from it infers the great benefits of free trade. It confronts thus the effect and the cause. A perpetual peace exists among provinces and states already associated; it is from that association that their commercial union is derived: they owe to perpetual peace in the place they occupy, the benefits which it has procured them. History proves that political union always precedes commercial union. It does not furnish an instance where the latter has had the precedence. *In the actual state of the world, free trade would bring forth, instead of a community of nations, the universal subjection of nations to the supremacy of the greater powers in manufactures, commerce, and navigation. The reasons for this opinion are not only strong, but in our view beyond all dispute.*"[1]

We have put the last few lines in italics, for we believe that this fundamental doctrine has, if we

[1] pp. 198, 199, 200.

may judge of the cause and origin of the present great war, proved to be a known demonstrated truth. Paradoxical though it may seem, yet it is nevertheless true that the great Power to which List was directing his attack was Great Britain. List could hardly have dared to hope, however, that the effect of his teaching would ultimately reverse the relative positions of Great Britain and Germany, in so far as productive power was concerned, in so short a period. But such has proven to be the case.

Germany, in our view, and contrary to what was anticipated, has provided the historical example outlined by List to a much greater degree than Great Britain; and few can deny this fact. If this be generally admitted, are we not then faced with the reality that the most effective means of defence and offence which a nation can possess is the national system?

It has been clearly demonstrated that Germany declared this war to subjugate the smaller European nationalities to her will-power, and this objective was only made possible, at the time it was contemplated, by reason of the greater productive power which she possessed in chemistry, production and transportation. List was of the opinion, however, that political union always preceded commercial union. We do not believe this to be strictly accurate; we are rather of the opinion

that economic penetration, or the dependency of one nation upon other nations for its essential utilities and commodities, will be found to be a necessary preliminary to political and commercial union in an aggressive campaign; in other words, to subjugation.

This being so, are we not confronted with the further reality that the theories underlying the doctrine of *Laissez faire*, *Laissez passer*, fail, both in the abstract and the concrete, in so far as it may concern the science of government. If the world is ever to be reconciled to the general idea of universal union and perpetual peace, it will only be realised, as List has accurately foreshadowed, by clearly recognising that each nationality is entitled to the existence and system of government which it may deem to be the most advantageous for the advancement of the welfare of its people.

A nation cannot presume to undertake to make itself responsible for the welfare or social progress of other civilised nations, nor dictate its will to them, without the full consent of the people whose nationality is concerned. This is an elementary proposition, but men, in their preoccupations, so often overlook it.

If a nation desires to advance civilisation in accordance with its own particular characteristics and conception of life, or protect itself against aggression, the only means by which it may reason-

ably fulfil these duties is to employ and make effective the national system. A nation can only advance its influence and civilisation in the comity of nations by precept and example alone; it certainly cannot impress it upon unwilling nationalities by force of arms with any hope of permanent success.

"A nation in a state of servitude," says Montesquieu, "labours rather to preserve than to acquire. A free nation labours rather to acquire than to preserve." To which just remark List has added (page 88): "And whilst people think only of preserving, and never acquiring, they are overtaken by ruin; for a nation which does not advance, retrogrades, and must finally perish." "For if restraints upon international trade are but in a very few cases compatible with individual liberty, the highest degree of individual liberty is not incompatible in foreign trade with heavy restrictions. It may even happen that foreign commerce wholly free may lead to national servitude, as we intend to show in the instance of Poland."

It is in this sense that Montesquieu says: "It is in free countries that men of trade encounter innumerable obstacles; they are never less hampered by laws than in countries not free."[1]

Notwithstanding the criticisms we have made

[1] *Spirit of Laws*, Book XX, chap. xii.

on the *Laissez faire, Laissez passer* school of thought, we are prepared to concede that in the middle of last century, when Great Britain adopted the principle of absolute free trade, the industries of the country derived a great impetus, but as we have pointed out on a previous occasion, we believe that this impetus was derived more from the fact that import duties upon natural materials were abolished, and that the abolition of import duties upon manufactured utilities had little or no effect upon the situation; in point of fact, after the end of the tenth year it had no effect at all.

As Frederick List has so wisely and satirically remarked—and the mental attitude indicated was no doubt prevalent in his time—

"A nation which by productive duties and maritime restrictions has built up a manufacturing industry and a merchant marine to such a point of strength and power as not to fear the competition of any other, can pursue no safer policy than to thrust aside the means of elevation, and to preach to other nations the advantages of free trade, and to utter loud expressions of repentance for having walked hitherto in the way of error, and for having come so lately to the knowledge of truth." [1]

But while we may concede this much, that the *Laissez faire* school may have imagined that it had

[1] *National System of Political Economy*, p. 440.

some foundation in fact upon which it established its absolute free trade school, we have, nevertheless, now arrived at that stage in the world's history wherein we are surrounded by nationalities having equal or, in the case of Germany and America, superior productive power to our own. The position has, in actual fact, become somewhat reversed to that which the school contemplated; but if there be any one who would not admit this truism, let us then agree that we are surrounded by nationalities of equal producing power.

If this be so, then it surely becomes necessary for the Government to adopt, by wise laws and regulations, measures of a kind that will ensure satisfactory working conditions in which British industry may be allowed freedom to develop their resources to the utmost possible extent in favour of the home market. We must preserve and, if possible, develop still further, those industries which exist, and re-establish in this country those industries which, by our former political economy, we have lost to the country. As List very ably remarks—

"Foreign competition should not have more than its share in the annual increase of consumption. Duties should be raised when foreign commodities supply the greatest part or the whole of the increased annual consumption."

It would be impossible for foreign commerce

to obtain more than its fair share of the annual increase of consumption of the home market if the community could be brought to appreciate and realise the significance of the principles underlying the national system, and the ultimate influence it would have in preserving and developing its future national prosperity and well-being.

In the adoption of the national system the community would not be so much concerned with the relation of imports to exports as between the home market and foreign countries; it would be primarily and mainly concerned with the productive power of each national division of labour, or sphere of activity, and the relative exchangeable values of the annual production which each sphere or division of labour creates.

In the national system, if it should happen that a division of labour should fail, or be unable, to produce sufficient utilities or commodities, whichever the case may be, to meet the country's requirements, then the other divisions must necessarily meet the deficiency by importing what is required from foreign countries. And the necessity which would force the other divisions to resort to this procedure must temporarily impair the national power and the well-being of the individuals employed within the division of labour which failed; and such other individuals over whom its influence may directly and indirectly extend.

It therefore follows that all necessary precautions should be adopted to ensure that there will be no repetition of the deficiency in the annual national production, and consumption, in any division or sub-division of labour; for, in our view, it is these deficiencies which create unemployment and poverty, much of which could be avoided were a more intelligent interest taken in the subject.

After being satisfied that the national productive power is efficient in all its phases, and is properly balanced for exchange purposes, we may then concern ourselves with the relation of our imports to exports as between the home market and foreign countries. In the circumstances mentioned it would be the height of folly to allow prevailing conditions to continue which allows foreign industry and commerce to materially influence or prejudice our national welfare, employment and prosperity.

Before leaving this subject there are one or two criticisms we should like to make on certain observations made by List, and the first is contained in the following passage—

"An universal republic, as it was understood by Henry IV, and by the Abbé de St. Pierre—that is, an association in which all nations should mutually acknowledge the same legal authority and renounce the right of enforcing justice, as

between themselves, is realisable only so far as a certain number shall have reached the same, or nearly the same, degree of industry, civilisation, political education, and power. Free trade can be extended only by the gradual progress of such an union; it is only by it that nations can obtain the great benefits of which associated states and provinces offer us in our time such an example. The protective system is the only means by which nations less advanced can be raised to the level of that nation which enjoys a supremacy in manufacturing industry—a monopoly not conferred by nature, but seized by being first on the ground; the protective system, regarded from this point of view, will be the most effective promoter of universal association among nations, and consequently, free trade. And from this point of view, political economy is a science which regards existing interests and the special condition of nations, shows how each one may arrive at that degree of economical development to which association with nations of equal culture and advantages, free trade included, may by any possibility carry a nation." [1]

In our view, List has committed a very grave error in the above, inasmuch as the doctrine of absolute free trade can never be established between nations, and we judge from present experience, as the balance of trade would work

[1] *National System of Political Economy*, pp. 200, 201.

in favour of the nation or nations which possessed the greatest population. The science of production has now got to such a degree of perfection that the industries of the nation which possesses the greatest home market can produce utilities and commodities upon a lower basis of cost by reason of the fact that all standing charges are spread over the larger production; so that each unit of goods produced would bear a smaller fixed charge. And this applies to the national Government concerned as well as to the manufacturing establishments. All surplus products would, therefore, compete with advantage in foreign markets.

In order, then, that nations possessing the smaller populations and possessing the most beneficent social measures may be able to pay the cost of their respective national services without imposing an undue burden upon their native industries, it must of necessity impose import duties of an amount *pro rata* to the amount native industry has to contribute directly and indirectly to these services, and it is not necessary that any further amount should be imposed for their protection, or free natural development. This is the fundamental basis of national economics based on freedom of trade.

The second criticism we would like to make is in the theory advanced by List in the following passage—

"When manufacturing industry is still in the first stage of its development, protective duties should be very moderate; they should be raised by degrees in proportion as intellectual and material capital, skill in the arts, and the spirit of enterprise increase in the country. But it is not necessary that all branches of industry be equally protected. The most important, those of which the development requires large capital, fixed and circulating, much machinery, consequently great knowledge, much dexterity and experience, and a vast body of labourers, whose products are to be classed among the chief necessaries of life, having as such, of course, considerable importance, not only in reference to their total value, but in reference to the independence of the country, as the manufacture of wool, cotton, and flax, such only should have the privilege of special protection. When these are suitably appreciated and developed, other branches of less importance grow up round them, even with less protection. Where wages are high and population not considerable, relatively to the extent of territory, as in the case of the United States, the interest of the nation demands less protection for manufactures not using much machinery than for such as employ machinery in the greatest part of their work, provided that the states from which they receive their manufactured articles take freely in return their agricultural products." [1]

Our view of his theory is this, that no manu-

[1] *National System of Political Economy*, pp. 266–7.

facturing industry in its first stages of development should require heavier duties than it does in its later development, provided its home market is sufficiently large. But, on the other hand, in those countries where the home market may be more limited in extent it would surely be more logical to impose a heavier duty in favour of the industry in its first stages of development, or subsidise it, rather than in its later stages, for reasons which we have found necessary to express in the last two preceding pages.

As regards the latter part of the above quotation, it is quite clear that List is referring to those industries which are mainly concerned with the development of advanced materials and finished materials, but as we have already dealt with this particular subject in the first essay of the book we need not further refer to it here beyond drawing attention to the reference (see page 8).

All that we need say by way of parenthesis is this, that all the industries of the country should be classified and scheduled under the headings of Natural Materials, Advanced Materials, Finished Materials, and Manufactured Utilities, and import duties should be arranged upon these as necessity may dictate, with the exception, as we have consistently emphasised throughout, that no duties should be imposed upon natural materials of any

sort whatsoever except, perhaps, in the case of wheat, which occupies an exceptional position in that the growing of wheat may be considered to be the farmer's key industry.

. . . .

In developing the three works we have just completed we have endeavoured throughout to place theory more in accord with actual practice, and to make national economics based upon freedom of trade more clearly understood and appreciated as a definite science than it has hitherto been; and it would, perhaps, be helpful if we gave, by way of conclusion, some indication of the primary objects we should seek to establish through the medium of the Government in order to ensure that the foundation of our future national and imperial policy may have a solid and permanent basis. In so far as our immediate interests are concerned, therefore, we believe that the primary objects to be established should be as follows—

(1) To secure the adoption of a system of National Economics based on freedom of trade as the basis of our future national business policy.

The tariffs provided for in this system are limited to a maximum of twenty per cent. *ad valorem.*

(2) To secure the establishment of a Ministry of Industry and Commerce with a properly qualified staff so that our foreign, imperial and domestic commerce may be developed on the most modern and scientific lines.

(3) To stimulate and encourage standardisation in methods of production, organisation and distribution. To promote and extend the application of scientific principles to industrial and general purposes.

(4) To stimulate and encourage the standardisation of our educational system. The demand of industry and commerce for the expert administrator and technologist will in the future become more exacting, inasmuch as the productive power of our national industries will depend upon the standard of knowledge prevailing in general manufacture and agriculture.

(5) To secure the adoption by legislation of the principle of a minimum wage of twenty-five shillings for all able-bodied men of eighteen years of age and upwards, and in return for this concession an arrangement to be made with the trade unions for the abolition of the principles underlying the restriction of output. If we are to liquidate our exchanges, compete with Germany and America,

war costs, external war loans, correct our foreign and provide the minimum wage of twenty-five shillings for all male adults over eighteen years of age after the war, it is essential that we should secure the maximum output from our manufacturing resources and agriculture.

(6) To bring about the establishment of a federal form of government for Ireland in lieu of the system provided for in the present Home Rule Bill, in order to establish mutual confidence and friendly relations between the various sections of public opinion in Ireland and in Great Britain.

In view of the conditions, political and economic, which prevail in Ireland, it will be found that the federal form of government is the one most likely to ensure sound economic progress.

The people of Ireland should aim at introducing an economic system for the whole of the United Kingdom, in which her interests are adequately safeguarded. The strength of Ireland's future economic progress can only be a reflection of the progress made in Great Britain.

(7) To conserve and develop the natural resources of the empire on behalf of national and imperial industries, special provision being made for our Allies, as specified.

(8) To secure the establishment of a trade bank, or banks, which shall extend financial facilities, or credits, to industry and agriculture for

the development of home, imperial and foreign trade.

(9) To establish the principle of small ownerships of land in lieu of the present tenant system, with a view to pursuing a more active and aggressive policy in connection with the development of agriculture in the United Kingdom. The productivity of the land at present under cultivation should be increased, and means should be devised to put under cultivation all land not at present being utilised for that purpose; all dead values to be made remunerative.

(10) To secure the co-operation of the transportation companies towards providing such facilities and efficient transportation at reasonable rates as may be required for the proper development of industry and agriculture in the United Kingdom.

In the pursuit of our respective professional and private interests we too often forget that there is such a thing as public welfare and nationality; and if we may judge by experience it is only in a time like the present that the public, speaking generally, is disposed to take a retrospective view of existence, cause and effect; but this general attitude must be departed from if the enormous developments which must take place in our economic life in the future are to be achieved. Our lives must be guided more from the national

standpoint by certain fundamental and demonstrated truths in the same manner as we would shape our own individual life.

We should remember at every stage of our development that there is something nobler and more inspiring than the pursuit of one-sided and purely selfish professional and private interests. Individuals, and all associations of individuals, will sooner or later perish ignominiously unless they have regard for the general interests of mankind and public welfare, and for their greatest and dearest possession, nationality.

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